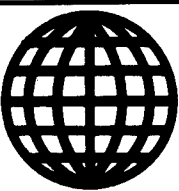


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# ***JPRS Report***

# **China**

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## CONTENTS

13 DECEMBER 1989

### POLITICAL

- Progress Under 40 Years of Socialism [Hong Kong LIAOWANG OVERSEAS EDITION No 40] ..... 1

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Possibilities, Conditions for Stagflation [JINGJI YANJIU No 7] ..... 2  
Economist Urges Greater Economic Reform [Hong Kong CHING-CHI TAO-PAO 21 Aug] ..... 9  
Analysis of Enterprise Systems [JINGJI YANJIU No 8] ..... 11

#### PROVINCIAL

- Jiangxi Industrial Banks Report Deposit 'Surplus' [XINHUA] ..... 18  
Jilin Reiterates Tax Regulations for Enterprises [Changchun Radio] ..... 18  
Shandong Stresses 'Advancement' of Technology [CEI Database] ..... 18  
Shanghai To Accelerate Development of Eastern Area [XINHUA] ..... 19

#### FINANCE, BANKING

- Domestic Debts Reviewed [Hong Kong CHIU-SHIH NIEN-TAI No 8] ..... 19  
Countermeasures For Fiscal, Monetary Problems [CAIMAO JINGJI No 8] ..... 21  
Interview With Finance Society Leader [JINGJI RIBAO 3 Nov] ..... 28

#### INDUSTRY

- Glass Fiber Plastics Industry Makes 'Rapid' Progress [XINHUA] ..... 30  
Liaoning's Dalian Shipyard Builds 'Largest' Oil Tanker [XINHUA] ..... 30  
Shanghai To Produce Quartz Vibrators for Watches [XINHUA] ..... 30

#### FOREIGN TRADE, INVESTMENT

- Inner Mongolia's Border Trade With USSR, Mongolia [NEIMENGGU RIBAO 25 Sep] ..... 30  
Problems, Developments in Sino-Mongolian Trade [GUOJI SHANGBAO 5 Oct] ..... 31  
Shanghai Joint Ventures 'Booming' [Hong Kong SOUTH CHINA MORNING POST 20 Oct] ..... 34  
Wang Zhaoguo Addresses Fujian Export Conference [FUJIAN RIBAO 24 Oct] ..... 34  
Dalian Economic Development Zone Attracts Foreign Funds [XINHUA] ..... 35  
Import Licensing System, Procedure in GATT Debated [GUOJI MAOYI WENTI No 10] ..... 35

#### POPULATION

- Procedures for Fourth National Census [XINHUA] ..... 39

#### TRANSPORTATION

- Dalian Harbor Handling Capacity 'Increased' [XINHUA] ..... 43  
Flight Service From Dalian to Xiamen Opens [Shenyang Radio] ..... 44  
Hainan To Build New Expressway [XINHUA] ..... 44  
PNew Passenger Terminal Begins Operation in Zhejiang [XINHUA] ..... 44

#### AGRICULTURE

- Shanxi Issues Regulations on Rural Contracts [SHANXI NONGMIN 12 Oct] ..... 44

Qinghai Livestock Production [QINGHAI RIBAO 25 Oct] .....	47
Hunan Winter Crop Area [HUNAN RIBAO 26 Oct] .....	47
Gansu, Ningxia Reap Bumper Grain Harvest [Beijing Radio] .....	47
Scientists Find Waste Plastic Sheeting Harms Arable Land [XINHUA] .....	48
Dai Moan Gives Speech on Agricultural Production [Harbin Radio] .....	48
Provinces Step Up Investment in Farmland Development [CHINA DAILY 17 Nov] .....	48
Jiangxi Peasant Income [JINGJI CANKAO 27 Nov] .....	49

## SOCIAL

Industry, Thrift 'Keys' to Progress [RENMIN RIBAO 13 Oct] .....	50
Mass Media Guilty of 'Erroneous Guidance' [JIEFANG RIBAO 12 Oct] .....	53

## REGIONAL

### NORTHEAST REGION

Changchun Police Eliminate 'Six Evils' [Changchun Radio] .....	60
Revitalized Role for Enterprise Party Organization Encouraged [JILIN RIBAO 18 Oct] .....	60
Dalian City Arrests Poachers [XINHUA] .....	61
Heilongjiang Reports Progress in Environmental Protection [XINHUA] .....	61

### HONG KONG, MACAO

Interview With Szeto Wah on Residents' Prevailing Attitude [PAI HSING No 198] .....	62
'Centrist' Spokesman Urges Concentration on Long-Term Issues [KUANG CHIAO CHING No 203] .....	65
Many Residents Seeking To Emigrate [CHING PAO No 145] .....	70

### Progress Under 40 Years of Socialism

HK1110020789 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 40, 2 Oct 89 p 1

["Letter from Beijing" by Bao Xin (7637 0207)]

[Text] Dear Brother:

With the coming of National Day, the atmosphere of the 40th anniversary celebration is getting more intense each day. The various celebration activities I mentioned in my last letter are under way as scheduled. China observers are perhaps very interested in where the keynote of all these activities is.

The most authoritative keynote and the most accurate presentation of the 40th anniversary celebrations are, of course, contained in the conversations on 26 September between the six members of the Standing Committee of the CPC Central Committee and Chinese and foreign reporters, and also in the speeches against activities to split China, and is a wanton act of interfering in China's internal affairs. It has seriously underscored the main points they made in these speeches in the simplest words, that is: Only socialism can save China.

Although only socialism can save China, which is a conclusion Mao Zedong drew long ago, there is a deep meaning when the responsible persons of the CPC affirmed it again and again at the 40th anniversary of the National Day.

This is in response to the profound lessons from the turmoil and rebellion that happened not long ago. To the Communists, the turmoil and rebellion were aimed at overthrowing China's socialist system and setting up a bourgeois republic. The so-called "major international background" means that the West is pushing for the evolution of China toward capitalism by political, economic, cultural, and other peaceful means. The so-called "minor domestic climate" and "bourgeois liberalization" refer to those people in the country who yearn for the capitalist system in the West. In their political thinking, academic studies, literature and art work, and in school forums... they preach the theory of the failure of socialism and the theory of the superiority of capitalism, and create public opinion for the founding of a bourgeois republic. The turmoil which later became a rebellion broke out precisely when the "major background" and the "minor climate" went hand in hand.

It may be added as well that this conclusion has not been drawn from China's experience alone, but also from the experience of other socialist countries.

As the turmoil and the counterrevolutionary rebellion broke out as a result of the confusion on whether China should continuously uphold socialism or turn around and practice capitalism, naturally there is a need to conduct reeducation in socialism. When the 40th anniversary of the founding of New China is celebrated, it offers a golden opportunity to carry out this kind of education because the past 40 years have been ones in which China has scored constant successes.

Over the past month or more, mass media such as newspapers, magazines, television programs, and radio broadcasts have used various forms to vividly demonstrate the various achievements of socialist China during the past 40 years. This propaganda has obtained fairly noticeable results. The ordinary masses and even those people whose professions are to carry out propaganda work have been shocked ideologically in various degrees: We have scored not a few achievements in the past 40 years! For example, the Central Television Station has recently brought forth a National Day special program called *In a Flash* in its "news hookup." More than once I have heard friends talking about their impressions after they watched it. The other day, it introduced Huaihua—a new city in the west of Hunan, saying that it was "a city towed by the train." It was only a small town in the wilderness 10 years ago. As the Zhijiang-Liuzhou and Hunnan-Guizhou railroads intersect here, this town first became a rail crossroads and, eventually, a textile and electronics industrial city. On the day before and the day after this program, in its program *The Elegant Demeanor of the Divine Land*, the television station introduced Panzhihua—a new iron and steel city in Sichuan. After watching it, some of my friends commented that they had never expected to see the rapid emergence of such new cities on the map of China.

Facts certainly speak louder than words. In the past 40 years, China's economy has developed and its people's living standards have improved in a way which is much faster than old China and which is in no way inferior to many other countries of the world.

Depending on the strength of the basic socialist economic and political structures, and the self-reliance and hard work of the people of all nationalities, New China has become such a socialist country with initial prosperity. It is completely true to say that the establishment, consolidation, and development of the socialist system have not come by chance. They reflect the objective law governing China's modern social movements and represent the greatest and most profound reform in the history of China. The CPC has conformed to this objective law and has thus become the central force leading our socialist undertakings.

Of course, China's socialist construction has been a process of tortuous advance filled with successes and failures. The Communist Party has also made mistakes and suffered setbacks. Nonetheless, this can by no means negate one basic historical fact: The socialist political and economic structures have been deeply rooted in China. The main force to correct faults and mistakes comes from the Communist Party. Socialism is not immutable, nor does it have only one mode. Therefore, socialism must incessantly open up new ways for itself in reform. However, reform is not designed to negate socialism but to perfect and upgrade it.

Therefore, it is not strange that upholding socialism should become a keynote to be stressed at the 40th anniversary celebrations. [signed] Bao Xin 24 September

## NATIONAL AFFAIRS, POLICY

**Possibilities, Conditions for Stagflation**

40060734B Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 7, 20 Jul 89, pp 22-28, 21

[Article by Liao Qun (1675 5028) of the Forecasting Department, National News and Information Center: "Possibilities of and Conditions for Stagflation in China—Enlightenment from Stagflation Experiences in Various Countries of the World"]

[Text] Economic development is undoubtedly the most important objective of each country, while inflation is without exception the worst enemy of any country. The appearance of the phenomenon of stagflation, on the one hand causing the missing of economic development targets and on the other bringing confrontation with the big enemy in the form of inflation, is naturally a vicious disease in the economy. Since our country is now in an era of economic takeoff and also in the stage of reform, the stagflation phenomenon will cause even greater damage to our country. Hence, an earnest study of the possibilities of, and conditions for, the appearance of such a phenomenon in our country and, on that basis, and from a new angle, consideration of the strategy for our country's reform, economic policy, and development from now on carries an important and realistic significance.

### I. Causes and Mechanism of the Growth of Stagflation in Various Categories of Countries

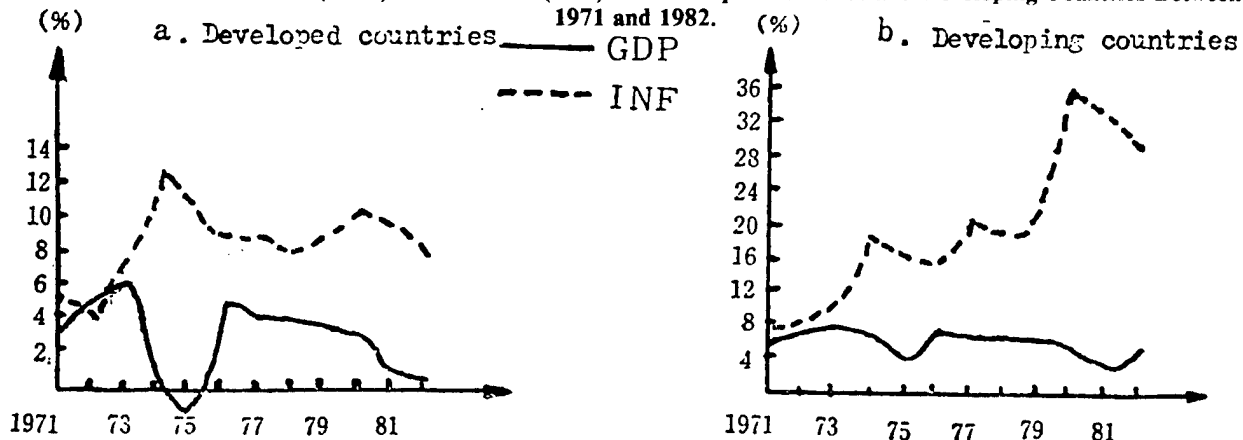
Since the 1970's, the stagflation phenomenon has appeared in nearly all the developed countries and in the majority of developing countries. In the 1980's, it spread to socialist countries like Yugoslavia, Hungary, and Poland, which were then in the frontline of reform. As seen in the following table, between the years 1971 and

1982 the economic growth rate of the developed countries and developing countries was on the down trend while at the same time the inflation rate went upward. During the two world economic crises, that is, between 1974 to 1975 and 1980 to 1982, the bottom and the peak were respectively reached, forming symmetrical changes. According to statistics, in these 12 years, the average annual economic growth rate of the developed countries was 2.7 percent, a drop of 2.5 percent compared with the 1960's while the average annual inflation rate was 9.5 percent, a rise of 5 percent compared with the 1960's; in the developing countries, the average annual economic growth rate was 4.2 percent, a drop of 4.5 percent compared with the 1960's while the average annual inflation rate was as high as 20 percent, a rise of 17 percent compared with the 1960's. The three countries of Yugoslavia, Hungary, and Poland all fell into the mires of stagflation one after another during the 1980's. Between the years 1980 to 1987, the economic growth rates were respectively 0.9 percent, 1.2 percent, and 0.5 percent while the inflation rates were respectively 64 percent, 8 percent, and 20 percent.

Since 1983, the stagflation phenomenon in the developed countries and developing countries was somewhat eased but the threat still has remained and possibly can become a sort of a fixed form of capitalist crisis from now on. The three countries of Yugoslavia, Hungary, and Poland are still on a high tide of stagflation. It is estimated that the situation will develop further and certain other socialist countries subsequently undertaking reform may follow in the footsteps of these three countries.

Stagflation being an economic phenomenon, the vast extent of its spread and the prolonged period of its being sustained illustrate that its appearance is by no means accidental. Behind it there must be a strong motivating cause and mechanism. However, in different kinds of countries, just as these are major disparities in their

**Rates of Economic Growth (GDP) and Inflation (INF) for Developed Countries and Developing Countries Between 1971 and 1982.**



levels and patterns of economic development, this cause and mechanism may have also great disparities. In order to grasp the essence of stagflation, and based on an analysis of the conditions of our country, it is necessary to analyze them separately.

*1. Causes and mechanism of stagflation in developed countries.*

What were the reasons that at the end of the 1960's and the beginning of the 1970's, developed countries ended their over 20 years' stretch of economic prosperity and began to fall into the mire of stagflation? Western economic circles have performed extensive studies on this but up to now their opinions have differed. These opinions may be summarized in the following four viewpoints: (1) The belief that the sharp rise in the price of petroleum was the main cause of the western countries falling into stagflation in the 1970's. (2) The western interpretation of Marxism—the belief that strengthening of the capitalist monopolistic structure was the basic source of stagflation. (3) Theory of the accumulated effects of chronic inflation—the belief that in the postwar period the chronic inflation which all along had existed has accumulated to a certain degree and through the mechanism of alternative rises in wages and commodity prices has necessarily led to stagflation. (4) Theory of technical renovation and investment periodicity—the belief that stagflation was the natural result of the large-scale technical renovation and beginning of the decline of the hightide in investment at the end of the 1960's. Of these four viewpoints, the theory of petroleum prices obviously does not touch the reality of the matter; the belief about the accumulated effects of chronic inflation does not give the causes of the growth of chronic inflation and how transformation is made to the alternate rises in wages and commodity prices; the theory of the monopolistic stage, aside from being a somewhat forced and farfetched interpretation cannot explain why, when the monopolistic structure was already strengthened to a considerable degree at the time of imperialism, there was then no trace of stagflation. In comparison with the above three explanations, the theory of technical renovation and investment periodicity touches the essence of the problem and should be the starting point for seeking the end source, except that we must still probe into it from the historical angle.

Keynes divided man's consumption desires into those for which he has the ability to pay for and those for which he cannot pay. He called the former demand (or effective demand) and the latter, wants (termed as natural demand in this article). Keynes believed that effective demand directly propelled economic development. But it must be understood that effective demand was through money transformed from natural demand. Without natural demand, effective demand cannot be generated. But the content and strength or weakness of natural demand is closely related to the developmental stage of productive forces. In feudal societies, people only want to be well fed and well clothed. After the 1st

industrial revolution people generated a need for steamships, airplanes and other motor-powered appliances and machines. After World War II, the revolution in electronics and computers brought new demands for telecommunications and information and automation in industries and offices. The rise of this new demand, plus postwar recovery needs and the large-scale military expenses of the cold war, caused a hightide in the natural demand during postwar world economic development. Precisely because of this hightide, Keynes' financial and monetary policies met with success and through the intermediary role of money natural demand became effective demand, led to large-scale investments in technical renovation and introduced the 20 years' post-war economic prosperity. However, the high-speed of development in electronics and computer technology, plus the completion of the postwar recovery, along with easing in the cold war situation, caused natural demand to peak at the end of the 1960's, and then begin to decline. This was manifest in the daily reduction in people's desire for new consumer goods and their consumption tended towards expanding the current level of consumption of a welfare nature. Following it was the fall-off in the workers' production desires whereas their income remained briskly high and there appeared the trend of the workers becoming autocrats. Certain countries in northern Europe have become welfare societies; West Europe and the United States also bear certain features of welfare societies. These are the natural consequences.

Under the conditions of the weakening of the growth trend in natural demand, Keynesianism began to lose its effectiveness. Increase in money supply not only did not increase the effective demand or stimulate production but also became a factor in directly pushing the rise in commodity prices. And with the mechanism of the alternate rise in wages and commodity prices entering into a vicious cycle, the Philip's curve moved to the upper right and ultimately dropped vertically into the pit of stagflation. This was the essential cause and mechanism of the developed countries at the end of the 1960's and the beginning of the 1970's beginning to display the phenomenon of stagflation. In recent years developed countries, through the help of monetarism and the supply-side school, have managed to ease off stagflation but still have failed to eradicate it. It may be anticipated that before the coming of the hightide of the next mechanical revolution, the dark shadow of stagflation will appear off and on, enveloping the developed countries. This shows that the growth of the stagflation phenomenon in developed countries is regulated by the periodical nature of their economic development and is caused objectively.

*2. Causes and mechanism of stagflation in developing countries.*

The tide of democratic national revolutions has pushed the great majority of developing countries from a closed-up and self-locked state to an international environment of opening to the outside world and made them realize how far they fall short of international standards. At the

same time, it has stimulated their desire to attain international standards. This has led to the natural demand of the developing countries becoming far stronger than that of the developed countries. And, besides, the gap is so large that it will enable this demand to remain strong for a prolonged period of time, even into the next century. Therefore, the weakening of natural demand the developed countries fall into the mires of stagflation does not apply to the developing countries.

From the above table, it can be seen that the rise and fall in the economic growth rate and inflation rate of the developing countries were basically symmetrical with those of the developed countries. This was because after the war, the economies of the developing countries were becoming increasingly more related to the world economy, particularly for the economies of the developed countries. This kind of economic relationship, while simultaneously making the economies of the developing countries and the world economic achieve rapid development, also caused the stagflation in developed countries to be transferred via the channels of trade and foreign borrowing to the developing countries. First, let us examine the trade channel. In the developed countries after the growth of stagflation, the demand for import was reduced. This led to trade protectionism, and through customs tariff walls and such measures as quantity control, depressed prices, and so forth causing a direct blow to the developing countries export trade. At the same time, inflation of domestic inflation was passed on to the export products, and this became a direct cost factor for inflation in the developing countries. The channel of foreign borrowing likewise played an important role. After stagflation, there was a reduction in the amount of capital loaned out by developed countries. In particular governmental external aid was drastically reduced while the private lending conditions became even more restrictive such as increasingly high interest rates, increasingly short loan repayment terms, increasingly rigid grace periods, and so forth. All this forced the developing countries to pay an increasingly higher price for borrowing and to bear an increasingly high burden in terms of principal repayment and interest. As a result, the limited funds inside the country flowed abroad and the gap between money supply and demand was further exacerbated while the shortage of raw materials needed in production became increasingly acute. Through these two channels, the developing countries followed in the steps of the developed countries and fell into the pit of stagflation. This was the leading cause of stagflation in developing countries.

Naturally, the crux of the problem lies in the fragile nature of the economies of the developing countries. First, it is a good thing to develop external economic relations, but the geographical structure or location of trade and foreign borrowing are too dependent on a minority of developed countries. At the same time the manufactured products of developing nations rely too heavily on imports while their major exports are of primary products or a low level of processing. This

pattern of foreign trade makes crises in developed countries readily transferable. Secondly, with the domestic aggregate demand and aggregate supply extended to the maximum, particularly with the bottleneck departments situated in the extremely stringent state and economic development in a precarious state, such crises are all the more transferable. Thirdly, the enterprises' ability to handle emergencies is weak, they are generally slow in readjusting their product mix and their ability to replace their products is poor. These developing countries are thus helpless in the face of external attack. The creation of the above-mentioned fragile nature is related to errors in the economic policy and development strategy of the developing countries. This shows that stagflation in developing countries, compared with the developed countries, is essentially different in quality.

Concretely speaking, Yugoslavia, Hungary, and Poland are like the ordinary developing countries. A high degree of dependence on the outside is an important feature of these three countries. The world's economic crisis and the deterioration in the conditions of international trade and foreign borrowing have successively become the external causes of their stagflation. But it cannot be denied that the hidden peril of stagflation lurked within the systems and economic structures of all three countries and that further major causes were errors in their reform strategies and selection of economic policies. On the reform side, the macroeconomic management structure was abolished early, but at the same time, from a microeconomic perspective, the enterprises have not been truly stimulated, the soft budgetary restrictive conditions have not been basically improved, and the workers have shown the tendency to behave like autocrats. Result: on the one hand, production was unable to escape sliding downhill while on the other hand the nature of the workers' wages has remained rigid as usual and there was no way to control demand-pull inflation. In all three countries, price reform was in dire straits, comparative prices remained as of old and there was a rise in the general level of commodity prices all of which worsened the situation. From the perspective of macroeconomic policy, first, the policy of surplus distribution simultaneously depending on foreign loans to push high consumption and heightening the accumulation rate planted the hidden seeds of stagflation. Second, industrial policy and scientific and technological policies were not regarded highly enough. Also, concurrently with the structural reform, readjustment of the economic structure itself was neglected which in turn twisted the industrial structure, and the technological level of industry was backward. These errors caused the economies of the three countries, to fall into many difficulties leading to the brink of stagflation following a period of high speed growth brought along by the reform. The hope at first was to ease these difficulties by developing external economic relations. However, with the deterioration of their external economic relations, the frail domestic economies were unable to withstand the onslaught from the outside and the result naturally increased difficulties and descent into stagflation.

## II. In the Coming Few Years, China Will Unlikely Encounter Stagflation

Stagflation is a sort of historical phenomenon and is manifested as a process. Strictly speaking, the simultaneous appearance in our country of one to two years' decline in economic growth and inflation is not stagflation in the real sense. Moreover, in my opinion, in the coming few years there will not exist the subjective and objective factors to push our economy into a state of stagflation.

Due to the economy being in a state of take-off, and the existing conflict between old and the new structures, inflation, in recent years has been steadily developing in our country and a certain degree of inflation in recent years has been unavoidable. But concurrently, is it likely that our economic growth will begin to suffer from such stagnation (such as the industrial growth rate falling below 5 percent)?

First let us examine whether the direct causes of stagflation in the above-mentioned countries exist in our country or not.

So far as the level of economic development is concerned, our country is backwards in its development stage and its disparity from the world level is larger than the majority of developing countries. But due to historical and cultural reasons, our discrepancy-induced natural demand surpasses that of other countries. The desire for post-reform accelerated development is even stronger and this makes the natural demand for economic growth correspondingly stronger. This implies that at the existing stage, seen from the innate objective process of economic development, the natural factors leading to stagflation do not exist. This has been all the more so during the past two years.

Let us analyze the factors of attack from the outside. First, in recent years, no signs of crisis have appeared in the world economy. At the same time, the degree of our country's dependence on the outside world is not yet on a par with Yugoslavia, Hungary, and Poland. Exports occupy only 15 percent of the GNP, and the debt repayment rate has not reached unmanageable proportions. Even though changes occur in the world economy, our domestic economy will not be greatly affected.

When examining the internal factors, it is found that since reform began, at the same time as achieving major successes, many errors have been made in the selection of the reform strategies and economic policies due to the tendency to seek instant results. This has created a series of new problems that confront our country's economic life and could become the hidden and latent factors leading to the growth of stagflation from now on. But on analyzing the factors that directly propel the growth of the economy, such as supply and demand, they have not yet developed to the stage of threatening the production of recent years to encounter a slump.

The people's main concern about the possibility of a production slump during the coming two years is that the overall retrenchment policy could lower effective demand, and thereby production stagnation. On this matter it is necessary to point out that the expected value of controlling demand cannot be too high. One of the reasons is the coordination between the demand and production targets. The demand target is realized through readjustment in a continuous coordinating process with the production target and based on the experiences of previous years. From the policymaker's angle, when production drops to below the target value, demand control must be necessarily somewhat relaxed. Another reason is the coordination between the demand target and enterprise reform. Stepping up enterprise reform naturally makes it more difficult to retract a portion of the delegated authority and power. Since indirect control cannot manifest itself in the short term, the tasks of demand control will be exceedingly difficult. According to an initial estimate, investments have generally been cut down by 10 percent in the past 2 years, whereas the average annual growth rate in consumption has exceeded 20 percent. This has thus failed to attain the control target of having investment depressed by 20 percent and consumption growth constrained to within 15 percent—a demand that can mobilize industrial production to reach the planned target.

The people's other concern is connected with the supply side. Due to the harmful effects of the high growth rates in preceding years, growth or supply, particularly in the case of the bottleneck departments, in the last two years, has slowed down somewhat. But it must be seen that the present supply problem is mainly related to coal. The central authorities have adopted necessary measures to promote coal production and they are anticipated to be successful. So long as coal production can fulfill the plan, output of electric power and steel will rise and it is estimated that this year their production will increase respectively by over 7 percent and 5 percent. In recent years, the flexibility of energy and raw materials in our country has been rather low. Seen in the longterm, this presents a hidden problem, but during the last 2 years it has been possible to maintain a normal situation.

The above shows that although in recent years it has been difficult to lower the commodity price index from one year to another, we still can keep away the spectre of stagflation.

## III. Potential Factors That Can Lead to Stagflation in China's Economy

Although we have adopted a rather optimistic attitude towards the threat of stagflation in recent years, during these same years in the economies of Yugoslavia, Hungary, and Poland, many phenomena, particularly the weak links of the economic system's internal and external economic structures, also existed and grew to varying degrees in our country becoming potential contributing factors to stagflation in our country.



First, worldwide economic changes will increasingly batter our country's economy. The development of an externally-oriented economy is the basic way out at the present stage of our country's economic development. By the year 2000, under the guidance of the coastal development strategy, our externally-oriented economy will have achieved a great development. It is anticipated that exports then will have ascended to a ratio of 20 percent of the GNP, that the national debt ratio will have exceeded 130 percent and that the national debt repayment rate will have exceeded the safety limit of 20 percent. At the same time as promoting our country's economic development, it will also have increased our economy's dependence on the world economy, and thus will naturally have increased the influences of worldwide economic changes on our country's economy. Even more critical is, the frail nature of the external economic structure. Our country's import and export structure and foreign debt structure are akin to those of the developing countries and Yugoslavia, Hungary, and Poland. Our imports consist mainly of manufactured products, our exports are comprised mainly of primary products and products with a low-degree of processing. The regional structure of our trade and foreign debt emphasizes the developed countries. This situation may be further reinforced by the coastal development strategy which calls for an externally-oriented economic pattern based on exporting labor-intensive-type products. Thus, through the two channels of foreign trade and foreign debt, if stagflation reappears in the developed countries or if international economic conditions deteriorate, their battering effect on our economy will be greatly exacerbated.

Microeconomic structural foundations are no doubt decisive factors, and if confusion reigns in an enterprise and the enterprise is not stimulated, a fundamental hidden danger is created. Confusion indicates an enterprise having failed to set up its own self-restraining mechanism, leading to inflation in the consumption fund, indulgence in short-term acts, disorderly scrambling for increasing prices, and operation and management being in a disorderly state. Lack of stimulation implies that the self-starting ability is still very weak, that the workers generally do not show a high degree of enthusiasm, that the phenomenon of work slowdowns is becoming increasingly more serious, and at the same time the high level of consumption demand cannot be scaled back, and that the workers are inflexible and headstrong not only regarding employment and wages but also in their expectations about awards. It also demonstrates a weakness in operational understanding, a readiness for profits without a sense of responsibility, or for losses. Profitmaking enterprises place their hopes for profits on being able to raise the commodity prices or striking a bargain during negotiations. As for those enterprises incurring losses, they hinge their hopes on financial subsidies from the government and receive no external or internal pressure from scientific management. In short, there is a lack of motivation to enhance economic results or technological levels; no improvement is made concerning the consumption of materials

and manpower or the use of funds, or in the quality of the products in the enterprises, and the level of technology and equipment is backward. What makes people particularly concerned is that the above-mentioned conditions are even more serious in the large- and medium-sized enterprises that are purported to be the mainstays of the national economy. Enterprises, particularly large- and medium-sized enterprises, are the principal bodies of economic operations, and if confusion reigns them in they will remain unstimulated, the economy will lose the microeconomic foundation it needs for healthy development, and it will be far less able to sustain major impacts from outside. This constitutes the most basic cause leading to the production of stagflation.

Sustained inflation brought about by excess consumption may also lead to consequences that cannot be overlooked. Demand-pull inflation has been sustained for many years in our country, particularly in recent years, consumption-induced inflation. More importantly, a stubborn mechanism has been operating in our economy, that breeds consumption inflation. Workers' inflexible and headstrong attitude towards wages and salaries, employment and rewards, has made it impossible for consumption demand to adjust to the depressed scale of investment. Rather than decrease it has continued to increase. Unequal distribution among the enterprises and individuals causes competition in consumption and naturally results in the consumption level rising repeatedly. Periodic interruptions in macroeconomic management, direct control having lost its effectiveness and the indirect control mechanism not yet having been established all make consumption, behave like an unbridled horse completely out of control. Maintenance of a long-term consumption-induced inflation necessarily relies first on foreign loans and second on the issuance of more domestic currency. The result of either one will be on the one hand leading directly to inflation and on the other hand, invariably lowering the level of production and hence stagflation.

The potential danger that concerns people most is the long-term downward trend in the state of the national economy. Since reform and opening to the outside world, a problem that merits attention is that at the same time as with structural reform, transformation of the state of the national economy has been neglected, causing the economy to stagnate. In particular, no improvement has been made in the industrial structure nor in the industrial technology which supports this structure. Regarding the industrial structure, on the one hand, its basic industries have become weaker following the speedy economic growth, and with the bottlenecks of the energy, communications and raw materials industries and trades becoming more acute, its weakness degree is far more serious than in the majority of developing countries or in Yugoslavia, Hungary, and Poland. On the other hand, it sadly lacks the support industries of high technology and thus lacks top-notch products that can compete in the current international market as well as outstanding leading products in the

domestic markets. In the developed countries, including a portion of the developing countries, progress in industrial technology contributes for over 50 percent to economic growth whereas in our country it is below 25 percent. Such prospects are all the more worthy of concern. Problems like the inequities in income have caused a large outflow of scientific and technical talents, and instances of students forsaking their studies. All this further weakens our nation's already frail and limited scientific and technological strength and some day could result in a lack of qualified successors in the scientific and technological fields. In the field of scientific research, probings into basic theories have become increasingly scarce and the fruits of large numbers of research projects have lain idle and not been put to actual use in industry. It is particularly noteworthy that enterprises, particularly large- and medium-sized ones, universally lack an intrinsic desire for technological progress and have few technical personnel capable of developing new products and techniques. Their available funds for such purposes are pitifully small and their technological levels have fallen far behind. This weak state of the national economy implies that our country's economic development is built on a very fragile foundation, that high-speed economic growth cannot be maintained for long, and that once the "storm" arrives, the economy will be on the verge of collapse and furthermore could lead to several interruptions in future industrial development. Eventually the factors that cause stagflation in the developed countries in the 1970's may appear in our country.

The hidden factors mentioned above may partially be attributable to the inherent problems associated with backwardness of the productive forces. Moreover, to a certain extent they are inevitable in the course of reform. But it cannot but be said that for the most part they are closely related to our reform and selection of economic policies and development strategy.

#### **IV. Basically Removing the Potential Danger of Stagflation—Looking at Reform, Policy and Strategy From a New Angle**

From now on, finding a way to nip the potential danger of stagflation in the bud should become the major starting point in planning the reform and formulating policy and strategy. This requires us to comprehensively examine reform, economic policy and development strategy from a new angle.

##### *1. Reform—the key lies in truly enlivening the enterprises.*

Enterprises are the cells of economic life. Only when these cells possess vitality can the entire economy become vital, develop healthily, resist externally-induced corrosion, and combat stagflation. Measures such as delegating authority to lower levels and the ceding of interests by central authorities that were adopted in the early stage of the reform enabled enterprises to disentangle themselves from the bondage of plans and facilitated the accelerated development of

production. However, they also created many unexpected problems. Downturns in benefits, deteriorated structure, confusion in order and program, and aggravated inflation are all related to those measures. Seen from the surface, it seems that enterprises have been over-stimulated but looking below the surface, it appears that enterprises have not really been stimulated. The greatest defect of the contract system is that it still is unable to fundamentally stimulate enterprises. The crux of the problem lies in the property right relationship. For an enterprise to truly possess vitality, both the entrepreneur and the producers must share a common desire to seek the enterprise's development. From the entrepreneur's perspective, this desire arises of a wish full to maneuver the assets into the material foundation whereas from the producer's perspective, the desire arises as it has direct bearing on their livelihood. However, under the contract system, due to the confused state of the property right relations, this foundation and prerequisite do not exist. As a result, the enthusiasm of the entrepreneur is limited while the producer cannot arouse his sense of responsibility.

Inevitably, enterprises enjoy the profits but do not take responsibility for the losses, thus making independent operation and assumption of sole responsibility for profits and losses hard to realize. This determines that the enterprise's vitality still cannot be fully brought into play. Compared to this, the shareholding system is a better choice. At present, the direction of enterprise reform is to overcome all hindrances and unhesitatingly speed up the transition and transformation from the contract system to the shareholding system. This is the only road to truly invigorating enterprises.

Enterprise stimulation also depends on the formation of the market; departure from price reform, therefore, will make it difficult to proceed with enterprise reform. The two should be promoted side by side. At present the discussion of which of the two should be pushed first must be shifted to a concrete plan for coordinating the two.

Along with enterprise reform and price reform, other reforms such as currency, finance, investment and foreign trade reforms should develop around enterprise stimulation. This is particularly true in the case of currency reform the pace of which should be stepped up.

##### *2. Policy: At the same time as perfecting control policies, development policies should be emphasized and strengthened.*

According to policy goals, macroeconomic policies may be divided into two major categories: One kind controls economic fluctuations to achieve short-term economic stability; these are control policies. The other kind promotes economic progress and has as its objective the realization of long-term economic development; they are known as development policies.

Since short-term fluctuations clearly brought on by demand-pull inflation have emerged in our economy since the advent of reform and the policy of opening up

to the outside world, in recent years our country greatly strengthened its control policies. This is necessary and correct. Continuing to improve this policy of control and to hold in check demand-pull inflation, particularly the trend of consumption-induced inflation, is an important aspect of eliminating the potential threat of stagflation. At the same time, we must not fail to note that due to the stage by stage character of economic development, developed countries generally focus on control policies whereas developing countries focus on development policies. Our country is a developing country and development is our major concern, but the transformation and enhancement of the state of the national economy is a necessary requirement during the take-off and development stages. Like economic structural reform, this is an important historical mission for us at present and at the same time constitutes one of the basic means of preventing the growth of stagflation. What needs to be understood is that aside from social structural factors, the backward conditions of our country's productive forces and the shortage of resources have made it necessary to rely on a systematic and effective development policy to guide the improvement of the state of our national economy. This implies that the development policy should be the focal point of our macroeconomic policy at present. It cannot be denied that development policy has not received the attention in our country that it merits. The two most important development policies, namely industrial policy and policy of achieving technological progress have not yet been given their due position while other development policies have been pushed aside by the control policies. One cannot but blame this for the current low level of the state of our national economy. Therefore, it is necessary to swiftly shift the basic focus of our macroeconomic policy to development policy and set up a development policy structure based mainly on industrial policy and policy of achieving technological progress.

### *3. Development Strategy: A penetrating look at the coastal development strategy.*

The coastal development strategy was put forward at the end of 1987 as the overall strategy for our country's economic development at the current stage. This strategy can be broken down into three main parts: (1) The need to develop an externally-oriented economy of "extensive importing and extensive exporting"; (2) the eastern coastal region should be the first to "be put out to sea"; and (3) the externally-oriented economy should concentrate on exporting labor-intensive products.

The first and second parts were important theoretical breakthroughs, and were also selections in conformity with our country's national conditions. Hence, this strategy had an important path-setting value and practical significance. Naturally, as a result of developing an externally-oriented economy, the incidences of changes in the world economy battering our country's economy will increase, but the importance and major significance of this strategy on our country's economic development should make the risk worthwhile. The question is, what

pattern of externally-oriented economy should be adopted that can facilitate economic development at the same time as minimizing risk.

The third part calls for making exporting labor-intensive products as the focus for developing the externally-oriented economy. This determines the pattern of the externally-oriented economy in the following aspects: The first is still keeping within the framework of the unilateral trading model; the second is that the export products should be comprised mainly of light industrial and textile products and agricultural products; the third is that the major component of the labor force should consist of rural surplus labor; and the fourth is that the main body of the export enterprises should be town and township enterprises. At the same time as affirming the positive significance of this pattern, many people have already raised several questions and doubts. Here we shall dwell on this solely from the angle of analyzing stagflation: First, the trade channel is the flexible and convenient way of transferring risks and crises. When a country's economic conditions have deteriorated, it is necessary to reduce imports and at the same time raise the prices of exports. This directly produces adverse effects on the trading conditions of one's trading partners. Comparatively speaking, at the even higher levels of international division of labor and liaison, such as direct investment and multinational corporations, their sensitivity and adaptability are greatly reduced, and even in the event that they are able to make adjustments, they cannot produce import, export, and debt multiplier effects. It can thus be seen that the unilateral trading model is not only an outdated traditional external economic form but from the standpoint of resisting the transfer and spread of stagflation, is also viewed as fragile and weak. Second, the further affirmation and establishment of an export structure composed mainly light industrial, textile, and agricultural products first of all strengthens the foreign trade structure of importing manufactured products from developed countries and exporting to the developed countries light industrial and textile and agricultural products. Once fluctuations occur in the economies of developed countries, these countries will resort to the countermeasures of depressing prices by restricting imports of primary products and products requiring a lower level of processing while at the same time raising the prices of their own exports. Furthermore, as a result of the developed countries' reduced demand for light industrial, textile, and agricultural products and the high elasticity of our own demand for manufactured products, our country's vulnerability to events in the developed countries and to falling into the mire of stagflation. Third, as for the selection of the rural surplus labor force as the mainstay for producing exports and of town and township enterprises as the prime source of foreign-exchange-earning exports, this model's fragile nature and inability to resist external economic forces is obvious. Once the difficulties

become insurmountable, a population of over one hundred million will be unemployed and numerous enterprises will be on the verge of closure. The consequences will be not only economic stagflation but also serious social problems.

The foregoing analysis cannot but make us fear that the selection of labor-intensive products as our focus is not only doubtful as regards its feasibility but also could become a contributing factor to the growth of stagflation in our country and as such cannot be ignored. It is essential that our strategy be reconsidered and that a new externally-oriented model be sought. First of all, the traditional pattern of the unitary trading model should be converted into the current multinational operational model engaged in a higher-scale level of international production; at the same time, as far as foreign trade is concerned, export enterprises should not consist principally of town and township enterprises. Instead, we should proceed to a larger scale and in particular should not overlook the foreign exchange-earning export of the large- and medium-sized enterprises; as for the enterprise workers, aside from absorbing rural surplus labor force to ease the problem of the shift in the rural labor force, we should make fuller use of urban technicians and skilled workers. Regarding the export structure, on one hand, we should export primary products and products involving a lower-level of processing; and on the other hand, we should carry out the major task of establishing heavy industrial exports that are competitive in the international market, and on this basis improve the regional structure of export, increase the proportion of goods exported to developing countries, particularly countries in the Asian-Pacific region, the Soviet Union and East European countries so as to reduce the overall level of risk. Only in this way can our externally-oriented economy extricate itself from the traditional model and be converted to a modern model able to withstand the batterings caused by changes in the world economy and eliminate the potential danger of externally-induced stagflation.

### **Economist Urges Greater Economic Reform**

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[Article by Tung Fu-jeng (5516 6534 4356)]

[Text] In line with the Chinese Government's guiding principle of improving and rectifying its overheated economy, it has, since the fourth quarter of 1988, put into effect a policy of retrenchment that has now achieved some results.

The summer grain crop increase of 5.1 billion jin indicates that agriculture has begun to take a turn for the better. There has been a decline in the inordinate pace of industrial growth. For the first half of 1989 gross industrial output value has increased 10.6 percent over the same period of 1988, a drop of 6.4 percentage points.

The excessive investment in fixed assets has been controlled. The total investment in fixed assets for the first half of 1989 was roughly the same as that for the same period in 1988. The finance situation has improved. Banking had a net return of currency from circulation for the first half of 1989 of 5.794 billion yuan, 14.155 billion yuan less than what was issued in the same period in 1988. Bank savings of urban and rural residents increased 64.4 billion yuan, 24.4 billion yuan more than for the same period in 1988. However, bank loans increased 34 billion yuan less than they increased in the same period in 1988. The commodity market is tending toward stability, and the rise in prices is slowing down. Although the level of retail commodity prices for the country for the first half of 1989 rose 25.5 percent compared to the same period in 1988, new price rises accounted for only 7 percent of that increase.

Nevertheless, considering the economy as a whole, the situation is as grim as before. Improvement and rectification have not gone well, and some major objectives have yet to be realized. For example, the planned target of reducing the investment in fixed assets for 1989 by 26.6 percent compared with 1988 will be difficult to achieve. There is still a sharp increase in consumer funds. Consumer funds disbursements from bank cash reserves for the first half of 1989 rose 25 percent compared to the same period in 1988. It is likely to rise even more for the last half of the year. Because the increase in revenue for the first half of 1989 has been lower than budgeted and because, at the same time, expenditures have exceeded what was budgeted, the deficit could go above the 7.4 billion yuan stipulated in the budget. The difference in the amount of currency withdrawn from circulation compared to the amount that should be withdrawn is extremely great. Because revenue from export earnings and nontrade foreign exchange earnings are down, the foreign exchange balance is in trouble. Under the circumstances, the stipulated task of clearly reducing the extent of the 1989 price increases in comparison to the 18.5 percent increase in 1988 will be difficult to realize.

If the Chinese mainland economy is to free itself from its predicament and get itself onto a well synchronized course, then, on the basis of almost a year of improvement and rectification, it must coordinate its stopgap measures with those intended to effect permanent changes.

To rapidly reverse last year's economic situation that brought serious inflation and abrupt increase in prices, a series of stopgap measures need to be promptly taken. For example, a large contingent of various types of inspection teams could be dispatched to different regions and departments to investigate whether capital construction projects that should be terminated or postponed really have been or not, to investigate whether price increases are made according to stipulation or are arbitrary, and to investigate the tax evasion situation. In addition, it could be stipulated that certain commodities, such as color television sets and chemical fertilizers,

for example, only be permitted to be sold by specifically designated commercial establishments and stores. Each level of government could make known to its subordinate level the projects and amounts to be invested and thus directly control them. Naturally, there are also stopgap measures, which some localities have taken, that are inappropriate. For example, to control the outflow of cash reserves, banks in some areas do not allow enterprises to collect remittances and do not hand over cash to supply and marketing cooperatives when it is time to buy agricultural goods but instead issue an IOU's.

Most of the successes achieved by improvement and rectification in the first half of 1989 were the result of carrying out these types of stopgap measures. However, it has become increasingly clear that simply relying on stopgap measures cannot reverse the grim economic situation. Some stopgap measures can have a mitigating effect on the present economy. However, they can contain the seeds of later trouble and create difficulties in the future. For example, using financial subsidies to control price increases is likely to increase the deficit and the issuance of currency, thus making it difficult to bring prices in line later on. In Beijing Municipality alone, it would cost 120-140 million yuan to lower prices by 1 percentage point. Administratively stipulating the prices of certain commodities and not permitting them to increase is likely to cause a distortion between the price of one commodity and that of another. For example, the purchase price of cotton cloth could be too low relative to that of grain. This not only could make it difficult to adjust prices upward later on, it could lead to shortages of certain commodities. For example, it would be difficult to increase output of cotton cloth. For these reasons, it is necessary to coordinate stopgap measures with those intended to effect permanent change.

Simply put, measures to effect permanent change mean greater reform of the economic structure. No doubt, it was policy error that caused last year's overheated economy, whereby total demand greatly exceeded total supply, which in turn resulted in inflation and sudden price increases. However, the fundamental cause was the economic structure, that is, the old structure and the imperfect new one, plus the friction between the two. Therefore, if the grim economic situation is to be fundamentally reversed and repeated instances of an overheated economy avoided—it has happened three times since 1979—then the necessary time and energy must be given to reforming the economic structure. Because of limited space, we will only briefly discuss the following points:

**1. Enterprise system reform.** Ten years of reform have achieved a number of successes. However, the enterprise system is still not on a new course. There has not been much improvement in the economic performance of enterprises. According to the 1989 plan, losses incurred by enterprises were to be reduced by 25 percent. However, they instead increased 1.22-fold in the first half of 1989 compared to the same period in 1988, and were equivalent to the losses for the entire year of 1988. Wage

and bonus increases were out of control, mainly because enterprises handed them out indiscriminately. The contract management system put into effect in the last several years has failed to bring about a permanent change for the better in the various abuses that occur in enterprises. More effective means of reform must still be explored.

**2. Financial management structure.** Since localities at all levels instituted the financial management system of dividing receipts and disbursements and assigning responsibility at various levels, the governments at these various levels have had their own financial authority. They have, as a result, proceeded on the basis of local interest and made great efforts to develop local enterprises. This is without doubt a major cause of runaway capital investment. This type of structure has also created market blockades as well as forced up the prices of raw and processed materials. Despite the central government's repeated injunctions that corrections be made, these issues are persistently difficult to resolve. People have proposed using a tax sharing system to replace the work contract system. This is one way to do it, but it must be carried out with the premise that enterprises must separate from the governments at the various levels.

**3. Commercial structure and capital goods supply structure.** In the field of commodity circulation there has occurred official profiteering, fraud, bribery, tax evasion, and the driving up of prices. For example, 1 ton of coal with a producer's price of 30 yuan or more, after being resold several times, can go for as much as 300 yuan or more. The market situation is abnormally chaotic, and wholesale trade is especially so. If the markets are not integrated and rectified and if these structures are not reformed, then prices will be difficult to hold down and the flow of large amounts of revenue will also be difficult to block.

**4. Banking structure.** Credit is out of control. One of the reasons that banks have been unable to switch off the outflow of currency is that they lack the capacity to act on their own. It is difficult for them to resist the demands of governments at various levels, especially under pressure of being ordered to make loans. Banks often have no authority to examine the feasibility of a loan. Even the central bank is unable to resist demands by the financial administration to issue overdrafts and loans to cover deficits. Bolstering the reform of banking structure to enable banks to truly act on their own is a prerequisite for proper management of credit and of the money supply.

There are also other aspects that we are unable to discuss. However, the various aspects of reform involving permanent changes cannot be circumvented despite that they cannot be effected in a short time. They must be resolutely carried out at the same time the stopgap measures are taken. Only in this way can the mainland economy be fundamentally improved. Otherwise, a turnaround is highly unlikely.

### Analysis of Enterprise Systems

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[Article by Zhang Jun (1728 6511) of Fudan University Economics Department: "Structure of Property Rights, Ownership, and Socialist Enterprise System—Hypothesis for Institutional Innovation"—dated July 1989]

[Text] One of the purposes of establishing an enterprise system is to overcome shirking and moral hazards on the part of owners of factors [yao su suo you zhe 6008 4790 2076 2589 5074] in team production by turning the structure of property rights to good account. The arrangement of the structure of property rights is affected and conditioned by the ownership of enterprise property. In this article I will attempt to analyze and study the effects of the property rights structure and ownership of enterprises on the performance and long-term development objectives of enterprises.

The arrangement of the enterprise system and the property rights structure differ according to differences in the way the public ownership system is interpreted. However, as indicated by practice in various socialist countries and enterprise reform in China, public ownership as represented and embodied by the government or state is by no means the sole, or best, system. This article will examine this kind of public ownership, where the government acts as an agent, and the system of social ownership in Yugoslavia, where the government serves as a symbol, and reveal the pitfalls of these two modes of enterprises. On this basis the article will redefine the meaning of public ownership, put forward and outline the hypothesis of a new enterprise system that will better embody public ownership and, where possible, substitute and replace the function of shares in Western companies with "internal accounts" for enterprise members.

#### I. Structure and Performance of Property Rights

The process and structure of modern large-scale production are different from those in traditional handicraft production. Thus, compared with traditional enterprises, production relations in modern enterprises are much more complicated. On the technical level, the use of machines on a large scale requires coordination in production. The most obvious effect of such coordination in production is that the production process becomes indivisible. There are three reasons for coordination in production. First, the multiplicity of resources used. In production, different resources must be put into the production process. This is called the coordination of input factors. Second, the effect of the coordination of input factors is such that in the production process it is very difficult to see from the products themselves the contributions of individual factors. In other words, the output is not the algebraic total of all input factors. This poses problems in the compensation for input factors or the payment of remuneration. Third, not all factors put

into production are owned by individuals. In this sense, modern large-scale production can be described as team production by various factor owners.

An important inference that can be drawn from the above analysis of the process of modern team production is that the activities of individuals in team production (such as how hardworking they are) will affect the productivity of other input factors. In other words, there is an external diseconomy effect between different factor owners.<sup>1</sup> In this sense, there is bound to be opportunistic motivations like "shirking" and "free riding" between different factor owners. Problems caused by such motivations are called "moral hazards."<sup>2</sup> Moral hazards can thus be created by purely technical factors, namely the multiplicity and technical indivisibility of input factors. As long as it is difficult to observe and determine technically the contributions of individual factors, or to distinguish their marginal productivity, moral hazards of mutual shirking and free riding can hardly be avoided. In order to bring into play the latent superiority of team production, that is, modern industry, we must overcome these moral hazards. Since moral hazards caused by technical reasons cannot be eliminated by technical means, institutional arrangements and innovation must be carried out.

Institutional arrangement is not the only means of resolving the problem of moral hazards but it is certainly the best.<sup>3</sup> Decentralized market supervision is another effective means. However, the information and supervision costs of relying on the market mechanism to eliminate shirking may be too high. Besides, there may be a resurgence of shirking motivations once outside the market. It is an innovation to try to overcome moral hazards by means of institutional arrangements through the establishment of an organization. This institutional innovation was achieved step by step in the course of the rise of the Western world. In order to overcome moral hazards such as shirking among team members, a structure or supervision device must be designed whereby some members of the team are assigned to observe and monitor the work of individual members as supervisors. If the production process can be observed it will not be too costly to supervise the behavior of members or observe the results. The problem arises if the supervisor is just a member of the team and just assigned to the job, when supervision will fall short of the requirements. The reason for this is that under the circumstances, the supervisor himself might wish to shirk just like everyone else. In consideration of this the institutional arrangement must be made in such a way as to prevent the overlapping of motivations and interests between the supervisors and the supervised and make the supervisors realize that shirking, either in thought or deed, will not do them any good. In this way it will be possible to achieve the so-called concurrent stimulation and supervision between the two parties. The question now is who is going to supervise the supervisors? A constraint which prevents shirking on the part of the supervisors may come from market competition, that is from the supervision of other latent supervisors. However, the role of

this kind of supervision is limited by its market cost and the resurgence of shirking motivations after "getting into position." Another effective means of supervision comes from alteration of the property rights structure. The supervisor is given his rights structure or position so he becomes a person who has claims to residual payments after allowing for payments to other factor owners. In other words, he becomes a residual claimant. This makes it possible for the interests of the supervisor and other factor owners to become compatible. Members of the team are paid in the form of wages, while the supervisor receives residual income after allowing for the payment of wages. The more hardworking the team members are, the larger will be the residual income of the supervisor and the stronger will be his motivation to exercise supervision. This will fundamentally eliminate the shirking motivation of the supervisors and strengthen supervision over other factor owners. In this way, the problems of shirking and moral hazards in the course of team production can be resolved.

The above analysis shows that the technicalities of modern team production objectively require that shirking motivations stemming from the indivisibility of production and the characteristics of teams be overcome by institutional means. The structural form which this kind of institutional arrangement will give to the property rights in enterprises will make the supervision of other factor owners possible and effectively remove moral hazards.<sup>4</sup>

However, such a property rights structure is only suitable to small sole proprietorship enterprises where the owner has sole power to dispose of all enterprise assets, including the power to supervise other factor owners, make residual claims, and make decisions regarding operation and the use of resources. A. Chandler Jr, after making an extensive study of the evolution of American enterprises, concluded that if this single-holder property rights structure were the only effective arrangement then large-scale operations and the mechanism for coordinating tens and hundreds of thousands of employees as seen in modern industrial and commercial enterprises would never have appeared.<sup>5</sup> The latter obviously requires a new property rights structure which will not subject the coordinators of enterprises to the kind of risks that confront single holders. This structure also must coordinate the powers of the hundreds and thousands of shareholders who provide the assets and the power of the management to make operational decisions. As we know, the system of shareholding enterprises has resolved all these problems and has become the symbol of today's industry.

The property rights structure under the shareholding system no longer bears the private sticker of a single-holder enterprise. This basic feature is reflected in the separation of "residual claims" from "the power of supervision over other factors." Under this changed property rights structure the enterprise owners (shareholders) have "residual claims" (that is, they are the rentiers), but the power of supervision, that is the power

to check the shirk motivations of other factor owners, is exercised by other people. This allows for and creates a stratum of professional managers who play the part of supervisors. The power of the tens of thousands of shareholders is exercised and protected collectively. That is to say when the assets of an enterprise are owned by a great number of people, a democratic process is worked out under which the power of individual shareholders can be exercised and protected. The "shareholders' meeting" is such an organ under the shareholding system. The supervisory hierarchy of the "shareholders' meeting" and the professional managers together constitute the basic property rights structure under the shareholding company system.

There is a distinct split structure within this kind of collective property rights. The design of this division of work system is based on the following two considerations: First, the need to keep the structural form of property rights and overcome the shirking motivations and moral hazards on the part of factor owners in the process of team production. Second, the need to overcome the drawbacks inherent in the survival and development of the single-holder system to make large-scale production possible and to develop its benefits. On the one hand it protects residual claims while keeping them separate from the power of supervision. On the other hand, it protects the power of supervision by handing the task of coordination to the professional managers, thus enhancing the efficiency of coordinating operations to scale. However, this collective property rights structure is still established on the basis of private ownership of enterprise assets. It has the following characteristics: First, because private ownership is completely divisible the decentralized ownership of enterprises does not indicate that ownership is collective. Second, the "external diseconomy" between different owners is almost nil. Under decentralized ownership, changes in individual owners will not affect the interests of other owners and will only imply the transfer of ownership. Thus, if the total shares (shareholding rights) owned by individual shareholders are equal to all the assets of an enterprise, in other words if the assets of an enterprise is completely divisible among its members, then what the shareholders own is not the enterprise itself but the shares. On the other hand, changes among the shareholders (such as the transfer of ownership) will not damage the interests of the enterprise assets and the other owners. Thus, enterprise assets are basically privately owned. However, from the perspective of the property rights structure we can see that because the property rights structure in enterprises is based on "committees" formed in accordance with a democratic process, the property rights are collective. The characteristic feature of the collective property rights structure is that decisions concerning the allocation of resources are made collectively rather than by individuals. This implies the introduction of certain democratic principles of voting and voting procedures and that the scattered shareholding rights structure must be coordinated and represented by means of democratically elected "meetings" or "committees." Thus, if the



interest or opinion of a particular shareholder is not reflected by the committee, he may transfer or sell his shareholding rights structure (that is, use his power to abstain).<sup>6</sup>

## II. Ownership and Structure of Property Rights

The above analysis shows that the basis of ownership rights in enterprises under the Western modern company system is still the private ownership system but that in the enterprise property rights structure, "committees" and the "collective" characteristics of the democratic process have appeared. Theoretically speaking, the collective property rights structure is preconditioned by the decentralization of property ownership. Hence, no matter how large the shareholding controlled by an individual (or a public institution like the government), as long as that holding is smaller than the total shares issued, he (it) cannot be regarded as the sole owner of the property. Thus, in Western nationalized enterprises an enterprise is not considered to be government-owned even if the government controls 60 percent of its shareholding. It is still a private enterprise in terms of the form of ownership except that its property rights structure is now autocratic rather than collective. Here, the "government" is just a large bureaucratic setup, not an "economic person" pursuing economic interests. Once the government joins the ranks of owners, ownership becomes a muddled concept. "Residual claim" also loses its significance as a means of supervision and the "shareholders' meeting" becomes an administrative committee through which the government exercises control. Managers at various levels will no longer be subject to close supervision and bureaucratism will grow. This is a fundamental reason why efficiency has remained low in Western nationalized enterprises and government-owned enterprises of various types.

Economists in China generally see the decentralization of shareholding rights in Western enterprises as "the weakening of ownership" and as proof that the property rights system can be separated from the ownership system. This provides them with a theoretical premise for enterprise reform in China. They believe that reform of the system of enterprise property rights will not affect the property ownership of an enterprise as a whole. Many people have thus argued that it is "feasible" to privatize or collectivize the property rights in enterprises while retaining nominal state ownership of property. However, a careful analysis of this argument using the theory put forward in this article reveals that it is not, in fact, very well substantiated. If the government wishes to preserve its right of property ownership it must control 100 percent of the shares (shareholding rights). From the above analysis we know that in a situation where all assets are wholly owned by the government, the privatization of property rights means the centralization of residual claims and the powers of supervision and decisionmaking are in the hands of a single holder and not a democratic decisionmaking committee. Since the government has ownership of the assets, who else other than the government will this single holder be? Is this not a return to the system of state ownership? If reform is carried out along this line, we can expect a return to the conventional system of state ownership. This has

occurred in Yugoslavia and it is a reminder to us that even if private ownership can exist alongside the private and collective property rights structures, state or public ownership definitely cannot coexist with private or collective property rights structures.

Under the arrangement of the collective property rights structure there is in fact another form of ownership in the West. This system, though by no means popular, indeed exists, and has aroused the attention of some scholars. It is a form of ownership characterized by its collective property rights structure and is called "individual ownership" or "shared ownership." Under this system, ownership of enterprise property belongs to members of the enterprise. In these enterprises each worker owns a share of the property and the rights that go with that share of ownership. This system is completely in keeping with the democratic principle of one man, one vote, as all policy decisions are made through the democratic process. This differs from private ownership under the shareholding company system in two ways. In the case of the former, ownership and the workers are one. In the latter case, the voting power of a shareholder depends on the shareholding rights in his hands and is not totally in keeping with the democratic principle of one man, one vote.

However, this form of ownership does not have many of the advantages of shareholding enterprises. A major drawback is that it contains within itself the seeds of its own destruction. David Ellerman, in his study of the laborers' cooperative, notes that a fatal weakness of this form of ownership is that the cooperative will go bankrupt if it is poorly run but if it turns out to be a success—and he cites as his example the Pu-li-wu [2528 0448 1051] Cooperative on the Pacific coast of northwestern United States—the value of its shares will soar so high as to make it difficult for new members to buy into it in large numbers. An ordinary share in a well-run cooperative like Pu-li-wu can be sold for up to \$90,000. On the other hand, those who leave the cooperative on retirement tend to sell their shares to the highest bidders who may not be members of the cooperative. This process will ultimately lead to the eventual takeover, even destruction, of the enterprise by outsiders. Besides, as long as the market price of the shares is so high that potential new members are prevented from joining, the enterprise will slowly be "mutated" because its members no longer wish to (and indeed cannot) lower the share price to make way for new members from outside. Under these circumstances, members of the cooperative are obliged to hire wage laborers from outside and make them "second-class citizens" of the enterprise.

An important theoretical issue implicit here is that a certain condition must be strictly adhered to in the application of the shareholding system and that is that either one of the following two options be adopted in pairing the form of ownership with the property rights structure: Under the collective property rights structure, enterprise ownership cannot be shared by or distributed between members of the enterprise. Under a system



where ownership can be shared or distributed, the enterprise property rights structure must be changed in such a way as to turn supervision over other factor owners into a necessary structural arrangement separated from the right of property ownership. In other words, the system of hired labor is to be adopted which in fact means taking the shareholding company system road. This institutional arrangement explains why the shareholding company system has become the predominant form of enterprise system in the West.

Before formally putting forward and discussing the feasible institutional arrangement for socialist enterprises this writer will attempt a brief analysis of the existing publicly owned enterprises and their property structure arrangements, with particular emphasis on workers' autonomous enterprises in Yugoslavia. It is worth pointing out that although some of the forms of public ownership under discussion are likely to converge in the course of actual practice, we are treating them as separate arrangements for the time being.

In its 1963 Constitution, Yugoslavia stopped using the term state ownership and used instead "social ownership." The Constitution stipulates that enterprise workers are in fact the trustees of social property in the form of machines, factory premises, and so on, and that the enterprise property rights structure is to be arranged through a democratic process by "workers' councils" and "management councils." This system of workers' autonomous enterprises will evolve (and has in fact evolved) into a system of enterprises owned by workers in the course of practice. The reason is that "society" as an entity must exercise its power over its possessions in terms of resources or property through an agent. In Yugoslavia, the government is chosen as this agent in the Constitution. Therefore, social ownership is totally symbolic. Furthermore, in view of the fact that purchase and sale of enterprise property is prohibited by the government, the difference between social ownership and state ownership is very indistinct. In this sense, state ownership is still the ownership form in Yugoslav enterprises.

In terms of the property rights structure however, the arrangement for producer cooperatives discussed above is adopted in autonomous enterprises in Yugoslavia. The only difference is that in the Pu-li-wu enterprise residual claims are in the hands of the members themselves, while in Yugoslav autonomous enterprises these claims are in the hands of government organs outside the enterprises. Unlike the Pu-li-wu enterprise, Yugoslav autonomous enterprises will not end up becoming "mutations" of enterprises because their residual claims are nontransferable. This is also where the fundamental difference between Western nationalized enterprises and foreign enterprises lies. The thing is, when external residual claims cannot be transferred or sold the decisionmaking power of the enterprises will be directly affected and the objective function variable of the decisionmakers will be changed. Thus, the ownership form of enterprise property may affect the arrangement of the property rights structure considerably. It is precisely because Yugoslav autonomous

enterprises have externalized and nontransferable residual claims that discretion is necessary in exercising decision-making power in terms of resources.<sup>7</sup> First, on the theoretical level the objective function of the decisionmakers will be changed from maximization of profits to maximization of average income for workers. Second, there will appear in workers' autonomous enterprises the motivation and trend to nibble away and divide up the revenue of these enterprises by all and every means. Since enterprise capital is social capital, and the capital invested by workers in their enterprises is nonretrievable, workers tend to favor dividing all revenue among themselves and diverting their share of profits to other business ventures.

Assuming that other conditions remain unchanged, as long as residual claims are external and nontransferable the objectives of enterprise managers in general are bound to reflect the characteristics of "Illyrian companies," that is, by being "short-sighted." Here the assumption that other conditions remain unchanged is stressed because the enterprise model under discussion is no longer the centralized administration model in the traditional sense. Let us now consider the enterprise models being reformed in the various socialist countries. Although their property rights structure still satisfy the requirements of being external and nontransferable, because the enterprises prior to the reform were nothing short of administrative appendages of the government, and their relationship with their leading departments was one of "vertical dependence," the objective of the enterprise managers (directors) can only be the fulfillment of targets and output values assigned by the higher authorities because they have no decisionmaking or discretionary power of their own. After the reform, as seen in China and Hungary, the relationship between the government and enterprises is no longer one of vertical dependence but rather is maintained by means of relatively independent contract relations. This being the case, because residual claims are external and because enterprise managers are merely separate members of the workers' syndicate and not subject to the supervision of residual claims, it is only natural that the objective of enterprise managers will move toward the Illyrian companies model which aims at the maximization of average income.

As far as the present socialist enterprise model is concerned, property ownership is rather obscure. Objectively speaking, the Yugoslav model returns enterprise property ownership to the government but reflects traits of collectivization and democracy in the arrangement of its property rights structure. The Chinese contract economy model and the Hungarian market socialist enterprises model are both preconditioned by recognition of state ownership to varying degrees. Where the arrangement of property rights structure is concerned, as long as ownership is in the hands of the state and external residual rights cannot be transferred or sold, policy decisions in terms of resources and the power of supervision over other factor owners are bound to be fairly discretionary. This is the biggest institutional drawback we have come across thus far. It shows once again that the ownership form of enterprises and the arrangement of its property rights structure are mutually

dependent and conditioning. None of the socialist countries have properly handled the relationship between these two aspects in their enterprise systems. Thus, the enterprise systems in socialist countries are faced with the dilemma of having to embody and maintain the socialist public ownership system and refuse to give up and abandon the practice of state or government ownership, while at the same time adopting the collective property rights structure of the Western enterprise system in its property rights arrangement. Under the arrangement of the collective property rights structure of Western enterprises the enterprise system is molded through the use of shares, which are themselves a social invention. Although residual claims under this arrangement are external, they are transferable, and thus noncompatible with government privileges. This external factor actually produces a professional hierarchy playing the roles of supervisors and decision makers. Through the procedural mechanisms of the stock market and the shareholders' meeting residual claims can effectively monitor and limit the discretion of managers who exercise decisionmaking and supervisory powers. This is a key arrangement that cannot be achieved under the economic structure of the socialist public ownership system. Thus, the application of the shareholding system in socialist enterprises is bound to be challenged by the following perverse argument: In order for residual claims of socialist shareholding enterprises to form pressure and restrictions which limit managerial discretion in exercising supervision and making policy decisions, it is necessary for the government to give up its shareholding rights which manifest public ownership. Unless this is done, public or state ownership in the sense mentioned above and the collective property rights structure will be mutually conflicting and exclusive. This is because the collective property rights structure requires that residual claims be transferable so that effective checks and balances can be maintained between the supervisory and decision-making powers, and this relationship is destroyed by the government. Thus, public ownership will cease to exist if this requirement is fulfilled. What this implies is that we should adopt the Western shareholding company system lock, stock, and barrel in reforming our enterprises. This is an easy task, much easier than inventing a new enterprise system ourselves but before we can find another standard public ownership system that can better embody the meanings of socialism than the modern interpretation of socialism, we perhaps should not give up our efforts and our search, and should not, indeed cannot, strive for "total Westernization."

### III. Communal Institution and Socialist Enterprises

If the law permits the assets of enterprises to be divided between their owners (in practice this cannot be done and the owners can only sell their ownership rights), in other words, if every owner has the right to a share of the property (equal or otherwise) and there is no crossover of power between these owners, then this is a private ownership system. For instance, my decision to relinquish ownership through the transfer of shareholding rights will not affect other people's ownership rights.

Public ownership obviously cannot fulfill the above two requirements. First, it is "indivisible." Legally speaking, property is publicly owned but individual members of the public cannot claim their ownership. Second, if individual members exercise their power over public property the interests of other members will be affected and impaired. There is coincidence of power, or "external diseconomy," between members.

The public and private ownership systems differ in three distinct ways. First, under the public ownership system individual members have completely coincident power over the entire property, unlike the private ownership system where the power of individual members depends on the shares they hold. Second, since the power of individual members is completely coincident, there is complete "external diseconomy" between members and the interests of the whole will be impaired or affected by the decisions of individual members. In other words, ownership among members of the public is absolutely indivisible. Third, ownership cannot be transferred or sold. Because of the complete coincidence mentioned in the first point and the absolute indivisibility in the second point, claims or transfer of public ownership rights by individual members will directly impair the interests of all members.

Thus, public ownership cannot be represented by an organ or individual that is above (beyond) members of the public. All representative ownership rights are contrary to the abovementioned characteristics of the public ownership system.

According to these characteristics the ownership of enterprise property should be granted but not apportioned to all enterprise members. In other words, property ownership is established not by an individual's investment of capital in property but by his joining or acquisition of membership. This is the same as when an individual has acquired citizenship he is entitled to the democratic right to vote and can use and enjoy the use of state public property regardless of his property or wealth. A citizen's enjoyment of state public goods, like national defense, mountains and rivers, and the fire brigade, is the same as his "entering into position and using publicly owned enterprise property." As citizens of the state, all members have completely coincident and indivisible ownership of public goods but they have no right to claim personal ownership of these public goods although the latter are owned by all. Similarly, all members have the right of ownership of enterprise property but individual members do not have the right to claim personal ownership. The public ownership of enterprise property implies that the property belongs to members as a whole, not to individual members.

The above is our analysis of the meaning and characteristics of the public ownership system. Based on these characteristics we can conclude by saying that none of the existing forms of state ownership can measure up to the requirements of the public ownership system. The reason is that once public ownership is entrusted to an

outside and detached organ, the characteristics of public ownership are lost and public power will be taken over, even stripped, in the course of practice. When the ownership system is impaired, the structure of enterprise property rights will be left without an effective mechanism of checks and balances. We can well imagine this from the above analysis of the present property rights structure in socialist enterprises.

The new socialist enterprise system must be arranged and established on the basis and premise of respecting and observing the requirements of the public ownership of enterprise property. It has to be a new property rights structure which is different from the Western shareholding and various socialist nationalized enterprise systems. Unlike the collective property rights structure its residual claims are unified, granted to the members as a whole rather than apportioned to individual members. Thus, residual claims are internal and are shared by all members of the enterprise who are also factor owners. In terms of the arrangement of the property rights structure, the "internalization" of residual claims has rendered unnecessary the power to supervise other factor owners (such as laborers). Thus the so-called "separation of ownership and control" under the Western shareholding company system is no longer seen in socialist enterprise property rights structure because the power of supervisory and residual claims have become one. This coincidence of power can well be imagined because when residual claims are no longer the special rights of asset owners outside the enterprise, but are commonly owned by members of the enterprise, supervision of the laborers is no longer essential.

As far as groups are concerned, there are two different principles for coordinating the institutional arrangement of group members. The first is the so-called "management hierarchy," or "hierarchy" for short. As an institutional innovation, hierarchy is created to overcome "moral hazards" that present themselves in the course of market transactions and the transaction costs of the market mechanism. The coordinating function of hierarchy can play a satisfactory role primarily because its vertical information channel reduces uncertainty and makes supervision much easier. However, when supervision is no longer necessary within the hierarchy the hierarchy system will no longer be able to play its coordinating function effectively. Take the household handicraft trades before the industrial revolution for instance. When individual laborers are producing handicraft products with their own two hands, labor supervision becomes unnecessary. This also holds true for the enterprises under discussion here. The second arrangement is called "communal institution," or "club institution."<sup>8</sup> It is a feasible option for the socialist enterprise system.

The property rights structure of communal institution or club institution is much simpler and clearer than the collective property rights structure which has private ownership as its basis. The reasons are twofold. On the one hand, this is due to the fact that residual claims and

the power of supervision are one in a communal institution. On the other hand, this is because the power structure of the communal institution is no longer the hierarchal arrangement of checks and balances but has taken on a league pattern based on the organic combination of external forces of competition and internal interests for cooperation. However, the communal structure is superior to the hierarchy system in that it can at the same time avoid the complete internalization of transaction and save the "cost of organization and supervision" in hierarchal management.

If we analyze this from the angle of the property rights structure we will notice that in the relationship between the managers and members of the enterprise, the power of supervision over other factors has been replaced by the management and decisionmaking power of the managers. In this sense it is perhaps not surprising that the arrangement of the communal enterprise system has been compared to that of a soccer team. Through similar institutional arrangements they both rely on external competition and internal cooperation to bring out the best in individual members. From the angle of the design mechanism, the Japanese enterprise system displays the characteristics of the club or communal institution to a certain extent. Under the Japanese enterprise system, which is a lifetime employment system without an explicit contract, both operators and employees are required to observe their company's customary rules and regulations. Some kind of patronage between the boss and all his workers has developed so that his department, or company as a whole, is run like a family or village. This system can minimize inefficiency and is the basis on which Japanese industry developed its high efficiency. If a corporation artificially removes itself from market competition it is very likely that the mutual-shirking mechanism rather than the mutual-working mechanism will be advocated in the principles of mutual-aid and mutual-benefit within the corporation.

The efficiency displayed by Japanese enterprises is no proof that Japanese enterprises are run along the lines of communal institution but it demonstrates that communal institution cannot be less efficient than hierarchal control. That is, a command-type relationship. This can be clearly understood in the following sense. The fact that in a communal institution residual claims are placed on the members of the organization will preclude all opportunistic motivations of shifting one's troubles onto others. The functional relationship within the organization may be like this: Individual utility is the augmented function of total utility. Such a design is the "concurrent stimulation and supervision" described in mechanism design theories.

The analysis made in Section II of this article shows that because the socialist property rights structure based on the public ownership system precludes the transfer of residual claims, the stock market will cease to exist. This system requires that in actual practice transferable shares be abandoned in favor of "internal accounts" for enterprise members to realize residual claims. Under

this system members are not only paid wages and compensation for other expenditure but are also provided, through the support form of internal accounts, with surplus interest after allowance for wages and other expenditures has been made. Under the arrangement of a communal property rights structure, surpluses or deficits will be debited or credited accordingly in the accounts of individual members at the end of the accounting period (such as year-end). Although internal accounts are not transferable like shares, if the performance of the enterprise is good the value of internal accounts will go up. This is similar to the function of shares. Besides, although internal accounts are not transferable they permit withdrawals provided that such withdrawals do not upset the asset balance of the enterprise. When a member retires or leaves the enterprise he does not have to transfer his shareholding rights in the market. All he needs to do is to clear his account after (or within) a number of years.

Due to the internalization of residual claims and the practice of internal accounts, all that is left in terms of the relations between the state or government and the enterprises is tax payment. The source of all unfulfilled targets as described by Kornai, that is the "paternalistic" relationship between the state and enterprises, is thus completely cut off. Only then will the socialist government be able to break itself free from the task of directing and managing the microeconomic activities of enterprises and truly discharge the functions of the government. In other words, as long as paternalistic ties still exist the true discharge of government functions will be out of the question. This has been vividly demonstrated by the experience of reform in the various socialist countries, particularly in China.

As vouchers of residual claims, shares draw support from the stock market and make use of market competition to exercise supervision over the shareholding enterprises. This is the uniqueness of stock as a social invention. It is very fortunate that under the arrangements of the communal property rights structure the establishment of internal accounts can simulate the function of shares in making good use of market competition. This function of internal accounts is manifested in the fact that in order to qualify for enterprise membership people must pay an "admission fee" which will be deposited in internal accounts to form the initial balance of these accounts. Admission fees may be set in accordance with the actual conditions of the enterprise, perhaps as a proportion of the fixed assets of that enterprise. Payment of admission fees may be as a lump sum or by installments. Admission fees not only form the initial balance of the internal accounts but, like shares, can make use of market competition and provide inevitable options for the flow of resources, including the free flow of labor. Market competition, and in particular competition launched in order to seize the opportunity to obtain membership, is in fact a simulation of the functions of the labor market. Of course, competition also comes from the job market. It provides enterprises with professional and technical personnel for decision making and

management. In terms of the property rights structure the separation of residual claims from the power of supervision objectively requires the training and rearing of a management hierarchy. Likewise, as long as the mechanism of market regulation is still functioning the internalization of residual claims will not weaken the demands on the professional decision makers but rather will strengthen these demands.

Due to limited space it is not possible to strictly define the enterprise system as we would with a legal provision in this article. All we can do here is to briefly explain the property rights and internal accounts under the socialist communal enterprise system and give basic explanations of the financing structure of these enterprises, concurrent stimulation and supervision, enterprise objectives, market competition, and state functions.

#### Footnotes:

1. Strictly speaking, this depends on whether individual factors are participating for cooperative or noncooperative reasons. We assume here that the latter is the case because noncooperative motivations often emerge when material and human factors are in conflict (alienation). For example, when we ride on public transport we often have the secret urge to dodge paying the fare. In the latter half of this article another form of cooperation, namely, the communal spirit, will be examined.

2. The concept of "moral hazards" was originally put forward in the study of insurance policies. Since policy holders can falsely state their risks, insurance companies find it difficult to charge premiums according to the actual risks of the different policy holders when determining their marginal charges and can only charge according to average risks. Many policy holders will find this to their advantage. On the other hand, policy holders may be faced with increased risks after taking out insurance policies because they may slacken their efforts in preventing mishaps. This is to their disadvantage. Institutional economists often use the term "moral hazards" to sum up people's tendency to want to shirk and have a free ride. O. Williamson used the term "opportunistic" to describe similar motivations.

3. "Institutional arrangement" is an arrangement between economic units governing the ways in which these units can cooperate and/or compete. The arrangement may be either formal or informal and it can be temporary or long-term. It must however, be designed to accomplish the following goal: To provide a structure within which its members can cooperate to obtain some added income that is not available outside that structure. See L. Davis and D. North: "Institutional Change and American Economic Growth," Cambridge University Press, 1971.

4. The term "property rights structure" is always used in the plural. Thus, the concept of property rights structure as used in this article refers to the combination or structuring of the three powers mentioned in the following paragraph.

5. See A. Chandler, Jr., "The Visible Hand: The Managerial Revolution in American Business," Cambridge, MA, the Belknap Press of Harvard University Press, 1977.

6. In economic language, when the "opinion" of a shareholder is not reflected by the decisionmaking committee, we say that the performance of an enterprise is not to the satisfaction of the shareholder. If this happens, the shareholder has the right to transfer his shareholding rights. This is the same as the principle of "abstention" in the realm of democratic politics.

7. Harvey Leibenstein, of Harvard University, discussed the discretionary behavior of the decisionmakers and the consequences thereof in his general X-inefficiency theory. Also worth mentioning is the study by O. Williamson on the discretionary behavior of managers. See also O. Williamson: "The Economics of Discretionary Behavior: Managerial Objectives in a Theory of the Firm" Englewood Cliffs, N.J., Prentice Hall, 1964.

8. Nobel economist J. Buchanan was the first to put forward and discuss the term "club goods" and the theory of clubs. See J. Buchanan: "An Economic Theory of Clubs," *ECONOMICA*, 32. See also Zhang Jun: "On Buchanan's Theory of Clubs," *JINGJIXUE DONGTAI*, No 1, 1988.

## PROVINCIAL

### Jiangxi Industrial Banks Report Deposit 'Surplus'

OW1411133089 Beijing XINHUA Domestic Service in Chinese 0529 GMT 13 Nov 89

[By Reporter Yang Jian (2254 0256) and Correspondent Xiong Qiugu (3574 8002 6253)]

[Text] Nanchang, 13 Nov (XINHUA)—As of the end of October, the surplus of savings deposits in cities and towns at the Jiangxi Industrial and Commercial Banks has reached 5.011 billion yuan. This amount represents a net increase in savings deposits for January to October this year of 892 million yuan.

In the last few years, Industrial and Commercial Banks at all levels in Jiangxi have put much effort into expanding their savings deposit network as well as the business of overseeing payments to workers who have wages deposited directly into bank accounts.

To date, 501 savings deposit centers comanaged with enterprises have been established provincewide; 26,413 units have been authorized to act as savings deposit centers; and 5,029 units have been authorized to pay out wages. In addition to these, the Industrial and Commercial Bank has also restored and launched over 10 kinds of banking business services, including fixed deposit and current accounts, travellers' checks, bonus and lottery savings deposits, large-denomination fixed deposits [da e ding qi cun dan 1129 7345 1353 2601 1317 0830], and inflation-indexed savings deposits. This has resulted in the rapid expansion of savings deposit.

### Jilin Reiterates Tax Regulations for Enterprises

SK1511021389 Changchun Jilin Provincial Service in Mandarin 2200 GMT 14 Nov 89

[Text] To correctly implement the state's criteria for issuance of bonuses, the provincial tax bureau recently reiterated six regulations.

First, the principle of levying taxes before issuing bonuses should be implemented. When the accumulated bonuses issued by enterprises and institutions within the year exceed the tax-free amount, tax payment reports should be submitted and taxes paid before bonuses are issued.

Second, the tax-free amount of the bonuses of enterprises and the institutions subordinate to scientific research units, schools, medical and health care units and culture departments is the amount equivalent to the wages for 4 and 1/2 months.

Third, enterprises that enforce the piece rate wage system after approval should levy bonus taxes from their personnel doing piecework whose bonuses exceed 30 percent of their basic wages. If the bonus does not exceed 30 percent of the basic wage, no bonus tax will be levied.

Fourth, wage regulatory taxes should be levied without exception from all the enterprises that enforce the system of linking the payroll to economic performance.

Fifth, bonus taxes from state small commercial enterprises operated under the leasing system should be restored.

Sixth, tax departments should order the units which do not submit tax payment reports and pay taxes on time to pay taxes retroactively and will impose, as they see fit, a fine of 5,000 yuan on them. An overdue fine equivalent to 0.5 percent of the tax that should be paid should be added to the tax for each day of default after the deadline.

### Shandong Stresses 'Advancement' of Technology

HK0711141389 Beijing CEI Database in English 7 Nov 89

[Text] Jinan (CEI)—Shandong Provincial Government has recently decided to lay emphasis on the advancement of technology in three aspects to boost its economy during the period of austerity.

The three aspects are:

1. Development of microcomputers, small program-controlled exchange, high-speed facsimile, automobile, tractor, digital-controlled precision machine tool, motorcycle, chemical fibre knitwear and artificial woollen and silk fabrics.

2. Popularization of 10 items of new technological achievements such as self-supply of steam generated

through synthetic ammonia, energy-saving in papermaking, saving of industrial water, microcomputer controlled boiler and application of rare earth.

3. To make technological breakthroughs in energy development and saving, communications and transportation, products made with metal and nonmetal materials, electronic information, machinery and its energy-saving equipment, special fibre and post-dyeing treatment, biology, sewage and watersaving, refined chemicals and its related intermediates, and new fertilizers and pesticides.

In 3 years, Shandong will raise the coverage of technological renovation of enterprises to 70 percent from the current 60 percent, the output rate of new products to 10 percent from seven percent and the rate of quality products to 24 percent from 21 percent, and cut energy consumption for 10,000 yuan of industrial output to 4.6 tons from 4.9 tons.

### Shanghai To Accelerate Development of Eastern Area

OW1111225689 Beijing XINHUA in English  
1526 GMT 11 Nov 89

[Text] Shanghai, November 11 (XINHUA)—The Shanghai municipal government has decided to accelerate the development of its eastern part by using foreign funds and improving infrastructural facilities.

For a century and more Shanghai proper has been mainly expanded on the western side of the Huangpu River, while large areas on the eastern side have remained idle due to limited transport conditions.

Local authorities consider that development of the eastern part is an effective means to alleviate population pressure, traffic jams, irrational industrial layout and pollution in urban areas.

He Shanquan, vice president of the municipal Planning and Design Institute, said that the overall plan for development of eastern Shanghai covers 350 sq km. By the end of the century, nearly 100 sq km are designated to be developed, including construction of harbor facilities, financial institutes, commercial facilities, residential areas, and energy and export-led industries.

According to the plan, the population of eastern Shanghai will increase from 500,000 at present to 800,000 by 1995, and to 1 million by the end of the century.

Local officials estimate that the development plan calls for tens of billions of yuan (3.7 yuan is equivalent to one U.S. dollar), and the Shanghai municipal government has decided to rent out the land-use rights to attract both foreign and domestic investors.

The city aims to create a favorable investment environment in the eastern part by building infrastructural projects first. The municipal government and the Ministry of Communications plan to develop a new harbor at

the mouth of the Yangtze River. The first-phase project for this includes construction of four 10,000 dwt class births, which are designated to be completed in 1993.

The city is now preparing construction of a bridge to span the Huangpu River. In addition to the existing tunnels under the river, there will be seven links between the current city proper and the eastern part.

Other projects under the development plan include a 3.6 million kw power plant, a 450 m high TV broadcasting tower, a navigation center and a children's medical center.

## FINANCE, BANKING

### Domestic Debts Reviewed

40060718A Hong Kong CHIU-SHIH NIEN-TAI in Chinese No 8, 1 Aug 89 pp 14-15

[Article by Chen Yige (7115 0001 2047): "China's Huge Domestic Debts; Since China Has a Huge Backlog of Both Foreign and Domestic Debts Totalling Over 100 Billion Yuan, It Is No Wonder That People Are Saying That 'The KMT Has Ten Thousand Taxes While the CPC Has Ten Thousand Debts'"; "It Is Going To Be Hard for China To Deal With This Crisis Since It Must Begin To Repay Its Domestic Debts in 1989; Where Will the Money Come from? This Is China's Greatest Current Domestic Worry"]

[Text] Although everyone is now looking at China's huge foreign debts, few are paying attention to its domestic debts.

The crux of mainland China's economic problems from 1989 through 1990 and 1991 will naturally be its unprecedented critical shortage of funds. The saying that "nothing can be accomplished without money" is applicable also to socialist countries.

Simply saying that China lacks a certain amount of money would be a bit too dull and simplistic. While simple statistics will tell you that China's finances are at least 200 billion yuan (RMB) short, you will still know only that there is a long line of zeros following the numeral 2. Whereas laying out all of China's IOUs and bills is much more interesting.

### China Has a Great Abundance of Domestic Debts

In order to tell the story of China's "debts," it is necessary to tell first of what these "debts" are composed. What domestic debts does China actually have? They can be listed as follows:

(1) Government bonds: As their name suggests, bonds are money that the state borrows from its people when its coffers are empty;

(2) Bank bonds: Instead of people borrowing from banks, these are funds that large state-run banks borrow from people when they are short of money;

(3) Key construction bonds: These are funds that the state borrows to run large factories and enterprises when it has no money;

(4) Key enterprise bonds: This is money borrowed when large factories run out of cash;

(5) Ordinary enterprise bonds: This is money that small and medium-sized factories borrow when they are in trouble.

In addition to these "perfectly justifiable" domestic debts, China also has certain unjustifiable ones where the money was urgently needed, such as:

(1) Budget balance funds: Ten percent of both the extra-budgetary income of all state-run organizations and the after-tax profits of collective, private, and state-owned enterprises must be paid as stipulated into the unquenchable state coffers;

(2) Stocks: People from Hong Kong may not be able to understand how stocks can be the same as bonds, but the truth about mainland China stocks is as follows: a) they cannot be circulated or exchanged (or are very seldom exchanged); b) they can neither "rise" nor "fall" in price; c) they have basically no clear stock rights or stock values, are printed very crudely, and can be taken to Hong Kong and counterfeited by the millions in minutes.

Since China also has many other debts, such as guaranteed value government bonds and special national debts, it is no wonder that people are saying that "The KMT has 'ten thousand taxes' while the CPC has 'ten thousand debts.'"

### **China Has Domestic Debts of 120 Billion Yuan**

How much does the PRC government actually owe to its people? Since it is probably embarrassed to admit the amount publicly, we will have to take the trouble to figure it out for ourselves. The most conservative rough estimate is about 120 billion yuan RMB, which breaks down as follows: 1) Statistics from the People's Bank of China show that China issued 67.17 billion yuan of government bonds from 1981 (when it first began to issue them) to 1987. 2) It was announced that 23.5 billion yuan in bonds (including those already issued) would be sold from January to August 1989. 3) While the data is incomplete, a conservative estimate based on 1987's level shows that 23.81 billion yuan in bonds were sold in 1988. These figures total 114.48 billion yuan.

People have joked about how easy it is to be a finance minister in China; he never has to worry about huge fiscal deficits to appear and taking criticism from all directions. This joke has a certain amount of truth. Just look at the fiscal budgets that have been settled over the years. No matter how terrible the financial conditions in any given year, there have never been "deficits on the books." Since there has been so much talk of "seeking truth from facts" in recent years, I think that even 3-year-olds would laugh if there had not been some

deficits on the books. This is the reason why the government has been forced to admit the "insignificant deficits" in its budget!

Seriously, when necessary, if the invincible Premier Lee wanted to tighten the economic policy of subsidies, Finance Minister Wang Binggan would still be able to wipe out "deficits" with one big stroke to eliminate the "deficit" just like that! This was not hard to accomplish. All he had to do was to overdraw a bit from the bank (to put it bluntly, just print more money) and increase the national debt a little.

So, there began the cheap tricks. The official money management would habitually regard borrowed national debts as revenue. This is a no-risk business because a fiscal deficit of trillions of yuan in any year can be cancelled out by simply selling trillions of yuan of government bonds.

Thus, China's accumulated deficit is far more than 120 billion yuan. So the secret is out and China's domestic debt of 120 billion yuan implies not only fiscal "deficits" but also, naturally, other things.

### **China's National Debt Must Be "Reduced" To Keep the PRC Government from "Falling"**

In reviewing the relationship between debtors and creditors, debtors have always had to adjust their behavior to creditors. No one can be forced to loan money if they do not want to. Isn't forcing someone to loan you money a robbery? However, this convention is not currently observed in China.

Many people were happy and vied to buy government bonds when they were first put on sale on mainland China in 1981, based on the feeling that "everyone shares the responsibility when their country is in trouble" and because government bonds are without risk and of guaranteed value. In addition, they were sold in small amounts of only 10-20 yuan at a time, which did not matter very much (only 4.87 billion yuan of government bonds were put on sale in 1981, of which 4.86 billion yuan were subscribed to by government departments, leaving only 10 million yuan to be assigned to individuals throughout China).

But the situation changed later. With prices doubling and redoubling, buying government bonds that would not mature for 5 or 8 years meant watching from behind bank counters while the value of one's "paper money" fell greatly, which was terribly distressing. In addition, the government bonds that were originally sold in amounts of 10-20 yuan were later increasingly assigned forcibly in amounts of 50-100 yuan. For instance, 6.31 billion yuan of government bonds were issued in 1987, of which 4.05 billion, or 40.5 times as much as in 1981, were assigned forcibly to individuals.

In fact, 100 percent of the government bonds issued in China since 1982 and 1983 were sold forcibly by administrative measures. The following story is ridiculous but



true: One old chap, who earned 120 yuan a month in wages, was amazed when he looked inside the pay packet he received one day (It is customary for mainland China factories to put wages inside big envelopes) to find that, although his pay was plainly listed as 120 yuan, there were only four "Great Solidarity" bills (having a face value of 10 yuan RMB each). What had happened to his other 80 yuan? While in the midst of flying into a rage, he discovered that his shop foreman had placed his name on the top of the list of "government bond subscription heroes." So this old chap's 80 yuan had bought him a distinguished first place.

Even government officials have been forced to admit that government bonds have become clearly-hated "beggars in disguise" in recent years. It is understood that only 830 million yuan, or 24 percent, of the 3.5 billion yuan of key enterprise bonds that were put on sale in 1988, had been bought by January 1989.

When seven cities, such as Shanghai and Shenyang, took the lead in setting up government bond transfer markets (i.e., "government bond exchanges") in April 1988, a black market in government bonds appeared immediately. Many government bondholders did not hesitate to unload their bonds on the black market at greatly reduced prices in order to get rid of them as quickly as possible. Some peasants did not even hesitate to exchange 60 yuan of bonds for a sweater worth about 30 yuan, nor did urban residents hesitate to exchange 30

yuan of bonds for about 10 yuan of eggs to eat...people regarded government bonds as yesteryear's silver dollars.

The government of the PRC must begin to redeem its bonds with interest in 1989. It must repay its many domestic debts and undergo a critical period in which it needs a lot of money in the next few years.

This problem will be difficult to deal with for the following three reasons: 1) The raising of interest rates along with everything else in recent years to cope with inflation and make bonds more attractive, has greatly increased the cost of issuing bonds; 2) Faith in government bonds (a general synonym for domestic debts) was lost long ago and no one wants them anymore; 3) China's bond dependence (i.e., the ratio between the amount of bonds it issues and its expenditures) has reached 15-16 percent, which is close to or even higher than that of Western countries. These three factors absolutely preclude the simplest life-saving method of borrowing new money to pay old debts.

Moreover, the most crucial matter according to expert predictions is still that the gap between China's revenue and expenditures will top 130 billion yuan by 1990.

Where will the money come from? This is China's greatest current domestic worry. It looks like the 27th Army will be unable to help Premier Li crackdown on this problem.

**Mainland China's Announced Domestic Debt Accrued in the First Half of 1989 (in RMB)**

Month Issued	Name of Debt	Maturity Period	Interest Rate	Amount Issued
9 March (Announced), 10 March to 30 Sept. (Put on Sale)	Government Bonds	3 Years	14 Percent	5.5 Billion Yuan
28 March (Reported by NEW CHINA NEWS AGENCY)	The Industrial and Commercial Bank of China Will Issue High Interest Rate Bank Bonds in the Near Future		Details Not Yet Disclosed	
April	BOC Bank Bonds	1-3 Years	13.34-14.24 Percent	1 Billion Yuan
5 May (Announced), 1 June to 30 Sept. (Put on Sale)	Special 1989 National Debts	5 Years	15 Percent	5 Billion Yuan
21 June (Announced), 1 July to 31 Dec. (Put on Sale)	Guaranteed Value Government Bonds	3 Years	Float Plus Guaranteed Subsidy Rate Plus 1 Percent	12 Billion Yuan

**Countermeasures For Fiscal, Monetary Problems**  
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[Article by Lu Baifu (7120 4102 3940) of the State Council's Economics, Technology, and Social Development Research Center: "Enforce the Double Tight Policy; Maintain the Two Balances; Eliminate the Excess Income Distribution; Extricate Ourselves From the Predicament—Fiscal and Monetary Measures For Promoting Development and Reform in the Next Several Years"]

**[Text] Excess Money Supply Is the Root Cause of China's Serious Inflation Problem Today**

Theoreticians disagree over the cause of inflation in China today. Those who analyze the economic mechanisms have three different theories: "the systemic cause theory," "the structural cause theory," and "the political cause theory." Others who analyze the economic functions also have three different viewpoints: "the demand-pulling theory," "the cost-advancing theory," and "the structural imbalance theory." But no matter what, from the point of the equilibrium between value and quantity, inflation is first a monetary phenomenon; it is the direct



result of the excess supply of money in society. The excess supply of monetary funds may be temporary or chronic, lasting several years. The causes of China's inflation today are both chronic, accumulated over several years, and acute, erupted just last year. If the supply of money had not been excessive in the previous years, the acute elements in 1988 alone could not have caused such serious inflation.

In recent years, China's economy has succumbed to the temptation of "quick success." Year after year, society's total demand continues to increase, and society's total volume of supply and demand remain in the state of serious disequilibrium. In spite of the fairly rapid increase in total supply in recent years, because of the excess demand, society's supply-demand gap continues to widen. In 1988, the difference between total supply and total demand was 224.3 billion yuan; the margin was in excess of 16 percent. According to the State Bureau of Statistics' figures, the gap between society's total supply and total demand continued to widen throughout the 1982-1988 period.

Prior to 1984, the supply-demand gap in China was fairly small: In 1983, the total difference was 26.5 billion yuan, a margin of 4.57 percent; it widened to 113.7 billion yuan, or a margin of 16.56 percent, in 1984. From 1985 to 1987, although the margins have narrowed, they remained in the double digits. Preliminary estimates show that the margin in 1988 has widened to 16.2 percent again.

From the point of the supply-demand structure, the bloated total demand is characterized by the twin-expansion of investment and consumption demands, and in turn, the expansion in investment demand is characterized by the twin-expansion of demand for fixed assets and circulating funds, especially circulating funds. Meanwhile, the bloated consumption demand is primarily the huge increase in personal consumption. When comparing 1987 with 1982, we see that national income has increased 1.19-fold; investment demand for fixed assets has increased 1.69-fold; investment demand for circulating funds has increased 3.15-fold; consumption demand has increased 1.36-fold (including a 1.36-fold increase in personal consumption demands in the towns and townships and a 1.04-fold increase in the rural areas).

The surge in consumption demand is due primarily to the huge increase in the distribution of national income toward personal income and because the distribution is increasingly biased toward consumption.

With respect to the rate of increase:

	1980 (billion yuan)	1987 (billion yuan)	1987/1980 (%)
State Income	107.9	246.9	+129.9
Collective Income	55.5	108.3	+95.1
Personal Income	200.4	567.5	+183.2

In terms of the percentages: (national income = 100)

	1980 (%)	1987 (%)
State Income	29.6	26.8
Collective Income	15.3	11.7
Personal Income	55.1	61.5

The increase in personal consumption demand is extremely inelastic; furthermore, once increased, the demand is very difficult to reduce and control. This poses another problem as we try to restore supply-demand equilibrium.

How do we increase the supply of monetary funds in society? There are no more than three ways: One, financial deficits; two, credit deficits; three, over-accumulation of foreign exchange assets. The third factor normally only plays a minor role in most countries, and it has only played a secondary role in China in recent years. So, the first two major factors are the main causes of the supply-demand disequilibrium and the excess distribution of national income in China. The huge increase in the money supply and the over-issuance of cash in circulation are basically due to the expansionary financial deficits and the expansionary overdrawn credits.

Since 1979, with the exception of 1985, China has had 9 continuous years of overdrawn-type deficits; the amount has reached 68 billion yuan, and if we add the debt-financed deficits, the sum is in excess of 140 billion yuan. In a deficit situation, if credit functions as a second line of defense to keep the balance and absorb the government's excess spending, the excess distribution can still be reduced, or eliminated. But in recent years, credit expansion itself has posed a serious problem. According to figures put out by the relevant departments, in the 4 years from 1985 to 1988, the cumulative credit deficits have reached 186.4 billion yuan; 65.2 billion of that was incurred in 1988, accounting for 29.1 percent of society's total supply-demand gap. For example, the demand for circulating funds has been increasing at an alarming rate in recent years. Except for the portion needed to enliven the economy and stimulate circulation, a substantial part of the increase in demand is the result of disorder in the circulation sector, the growing number of middlemen, widespread arbitrage and profiteering, and because funds are held up in the circulation sector. Much of the increase in the supply of circulating funds is created by credit. It is attributable to the banks' easy circulating fund credit policy. Especially serious is that a substantial portion of the circulating funds has become uncollectible "bad debts." This is also the reason why too little money is being withdrawn and too much money is put into circulation, which has greatly increased the amount of money in the market and has kept market prices high. Thus, because of the deficit spending and excess credit loans and because too much foreign capital has been brought into this country in recent years (increasing at a rate of almost 30 percent per

year), there is significant excess income distribution. Consequently, not only are we unable to satisfy the demands, but we have intensified the urge to spend and have further stimulated society's total demand. Thus, if we want to curb inflation, gradually narrow society's total supply-demand gap, and eventually eliminate the excess income distribution, we must be determined to close the fiscal and monetary gates.

What brought on the deficit spending and credit deficits in recent years? Some comrades suggest that it was mainly because the comprehensive departments failed to be on guard and exercise control diligently. I think there is more to it. The bloated supply of monetary funds is the result of a kind of economic "atmosphere." This economic "atmosphere" is the existing environment created by our system. Specifically: (1) There is an internal expansionary mechanism in the economy. Under the existing system, to obtain and retain more profit, enterprises must rely not on intensive improvement of performance but on extensive improvements (speed.) In some provinces and enterprises, a 10-percent rate of growth can only fill in the gaps; to see real improvements, they must strive for more than 20 percent growth. To them, slowing down means giving up profit, and they are most unwilling. (2) We have a "dual-track system" in the economy which aggravates the "three disparities" (interest rate disparity, exchange rate disparity, and price disparity) and produces a sharp contrast in economic benefits. In addition, at present, administrative intervention prevails over the economic constraints, which handicaps the effort to curb inflation. This demonstrates that we have not yet achieved our reform goals and we need in-depth reform of the economic system.

This kind of internal mechanism that promotes extensive growth is nothing new in China's economy; it was kept under control by economic planning and financial and credit restraints. Everything was done according to plan, and few escaped the controls. The present situation is very different: (1) the scope of planning is greatly reduced; (2) the ability to control the budget has diminished; there are more extra-budgetary financial resources; (3) the credit structure is more pluralistic; (4) foreign capital is brought in through many channels. Under the circumstances, the internal mechanism that promotes extensive growth can be inflationary and is very difficult to check. Of course, if we have better macroeconomic control mechanisms, and if the comprehensive economic departments play a more active role, the situation can be turned around. Even then, if we do not change the concept of "overheating" the economy, we still will not be able to curb inflation.

To change this "overheat" concept, I think it is vital that we get rid of the "inflation-is-beneficial theory," the "deficit-is-harmless theory," the "foreign-debt-is-fine theory," and other harmful concepts. Everybody knows that to apply Keynes' theory of inflation, several conditions must be met: One, there must be an excess supply of goods; two, there is serious shrinkage in production; three, there is a sharp increase in unemployment.

China's economy is an "economy of shortages." A sharp increase in fund supply is like adding fuel to the fire—it can only aggravate the economic dislocation. To date, there is still no concrete proof that a socialist country can stimulate sustained economic growth by implementing an inflationary policy. In fact, today, compared to other major countries in the world, China's financial deficit is by no means insignificant. The 1988 deficit (including debt-financed deficit) was 2.5 percent of the GNP, surpassing that of the United States (2.4 percent), Japan (0.8 percent), and West Germany (1.7 percent), and is almost as high as the West's Group of Seven (2.6 percent) deficit rate. It accounted for 13.2 percent of government revenues (the domestic portion) for that year, which is fairly substantial. With respect to foreign debts, by 1988, the foreign debt balance was approximately 40 billion yuan, nearly one year's total foreign exchange earning from trade. In particular, there is still growing popularity for the localities to borrow foreign loans on their own, and there is no uniform management nor effective control. This is very risky. Thus, to extricate ourselves from the predicament and restore order in the economy in the next few years, we should focus on the problem of excess fund supply and eliminate the excess income distribution. Only by guarding the fiscal and monetary gates, only by enforcing the "double tight" policy, maintaining the two balances, and eliminating the excess distribution can we really extricate ourselves from the economic predicament and keep the economy on a benign cycle.

**Tighten Credit, Stabilize the Currency, Balance the Budget, Eliminate the Excess Distribution—Proposed Overall Economic Adjustment Goals For the Next Few Years**

As described earlier, not only has the gap between investment demand and supply been fairly wide but the gap between consumption demand and supply has also widened significantly in recent years, and quantitatively, the consumption supply-demand disparity is far more serious than the investment supply-demand disparity. This is the root cause of the market fluctuations in recent years. This proves that excess distribution and fiscal and monetary "twin deficits" in an "economy of shortages" are "adding fuel to the fire" in an unbalanced economy. For this reason, the goal of economic readjustment should be to curb excess distribution and maintain the "two balances." Structurally, while we try to control the overall scope of investment in the next few years, we should also make every effort to control the rapid increase in consumption demand and really "tighten our belts" for a few years.

As for the overall goal of economic readjustment in the next few years, while emphasizing rectification and improvement, we should control the amount of growth, readjust the structure of development, and implement better and more thorough reform of the economic system in order to achieve the four major goals:

(1) We want to reduce society's total supply-demand margin from 1988's 16.2 percent to 5 percent. We can cut the margin by around 4 percent a year, getting back to the 1983 level over a 3-year period.

(2) We want to raise the share of the government's regular revenue as a percentage of the national income from the present 24 percent to 26 percent (excluding offsets,) eliminate the overdrawn-type deficits, reduce the amount by which enterprises can offset their losses, and lower the percentage of product price subsidies, and by readjusting the financial resource distribution between the central and local governments and between the state and enterprises, we hope to basically balance the budget.

(3) The overall loan volume will "basically stay put for the next 3 years," and the loan structure will be deliberately slanted. We must control tightly the increase in the money supply in accordance with the rate of economic growth and add a net of 100 billion yuan to the reserve each year, netting 300 billion yuan in 3 years.

(4) We want to promote the free regulation of foreign exchange settlement certificates and permit the regulation of spot foreign exchange in small denominations only; spot foreign exchange in large denominations should be administered centrally by the state. There should be better planning and management in borrowing foreign loans. In balancing the international payments, we should strive for a small foreign exchange surplus and weather the peak debt repayment period calmly.

We should further modify the profit distribution relations according to enterprise performance, set the wage level, and readjust the distribution shares. At present, there is "erosion" of the state's financial resources in four major areas: (a) Wages are eroding profits—income is rising faster than productivity; (b) the inferior are eroding the superior—the profitable enterprises have to subsidize the unprofitable ones, and efficiency is being penalized; (c) enterprises, departments, local governments, and individuals are eroding the state—they cheat on taxes and jack up costs; (d) debt repayments are eroding state revenues—pre-tax debt repayment is increasing faster than enterprise profits. To solve our problem, we must reward the superior enterprises and eliminate the inferior, reform the debt repayment system, institutionalize public spending, limit consumption funds, solve the four "erosion" problems, and increase the state's real income.

In order to facilitate the formation of a unified socialist market and let the state manage the economic activities in a standardized fashion, and through thorough reform, optimization, and improvements, we should take 3 to 5 years to gradually mold the present "pluralistic," "disorderly" financial, monetary, and enterprise management systems into standardized, orderly systems.

We should restructure China's macroeconomic management system and establish a macroeconomic adjustment system of different orders and of different levels. It

should emphasize policy adjustments, focus on value adjustments, and concentrate on the economic goals of a given time. In accordance with the substantive and functional characteristics, the macroeconomic adjustment system can be divided into three orders: A, B, and C, which can be regulated and controlled at one level, two levels, or several levels. At the A-level, the emphasis will be on fiscal and monetary policies and policies pertaining to the balance of payments; it will be regulated and controlled at the central level.

**Readjust the Financial Resource Distribution, Assign Reasonable Burdens, Reform the Public Finance System, and Enhance the Central Government's Adjustment and Control Capabilities**

The financial situation may be grim today, but we have not seen the worst yet. The most difficult time will be the next 2 or 3 years, at the peak debt repayment period. We will be hard-pressed to borrow new loans and repay old debts. At present, the public finance problems are more complicated and more difficult to deal with than the credit problems. For this reason, we should spend the next 2 to 3 years to make economic adjustments, and by implementing the necessary reforms, we can further smooth out various aspects of the financial resource distribution relations, facilitate a smooth transition, make proper adjustments, and change the present "negative margin" where extra-budgetary financial resources are increasing faster than budgeted financial resources, where the financial resources of enterprises are growing faster than the those of the state, and where local financial resources are increasing faster than those of the central government. Henceforth, we should allocate more of the incremental portion of the financial resources to the central government and strive to increase the proportion of the state's normal income to 26 percent of the national income and increase the central government's disposable financial resources to 60 percent of the state's total revenue.

—We should have an overall financial plan and make a step by step transition. In general, a good financial system is a system in which government revenues always keep up with economic growth, like boats going up with the rising river, and every sector gets a fair share. The present system does not work this way. The increase in the government's revenue not only has not kept pace with economic growth but has even lost ground. If this system is not changed, it will be difficult to enhance the state's regulatory and control capabilities. Today, the five major contract systems (local financial contract, enterprise contract, whole industry contract, foreign trade enterprise contract, and bank profit contract) affect the government's revenues to various degrees. They prevent state revenues from "rising with the tide." The local financial contract and the enterprise contract systems have the greatest impact. Although the contracts guarantee a revenue base and even some increments, the state is deprived of a even greater share of the additional profits. Under the present situation, however, it is not

practical to abolish the contract systems altogether. We should make a gradual transition and achieve the overall reform goals step by step.

In handling the financial relationship between the central and local governments, there are four choices (that is, four different systems): (a) the system of state monopoly of revenue and expenditure; (b) the percentage retention system; (c) the contract system; (d) the classified tax system. No doubt, we must not meddle with the state monopoly system again. Since 1980, we have changed the 30-year old system of state monopoly of revenue and expenditure. We implemented the percentage retention financial system in various forms, although it was not a perfect system. Then we substituted taxation for enterprise profit deliveries and later expanded the scope of local taxes and gradually readjusted the percentage of revenues shared between the state and local governments and made the transition toward the classified tax system. Overall, these changes are consistent with the reform goals of the planned commodity economy. But the 1988 contracts fixed everything, which countermanded the regulatory functions of taxation and even produced some negative effects. It not only diminished the central government's financial resources but also obstructed the implementation of the state's industrial policy. The local financial contract system is not without its use; it has prevented the dissipation of some financial resources and has reinforced the spending constraints. But these effects basically are short-term effects and do not promote long-term development. Reform means moving in the direction of the classified tax system; but it is impossible, nor is it desirable, to change from the contract system to the classified tax system overnight. We must have a proper transition period, and we cannot expect everything to "quick march" through this transition; we have to change things "two and three" at a time. We can adopt four fairly standardized methods simultaneously and move forward step by step: (a) Individual provinces and municipalities may retain the contract system for a few more years; (b) qualified provinces and municipalities may try the classified tax system; (c) the majority of the provinces and municipalities can increase local taxes and even share some of the central government's tax revenues; (d) [the central government] may supplement local tax revenues with a fixed subsidy.

—We should further smooth out the financial relationship between the state and enterprises and impose "rigid, two-way restraints."

As a form of management responsibility system, the enterprise contract system is beyond reproach. But the problem is, by including taxes in the contracts, it in effect nullifies the regulatory effects of state taxes. Furthermore, the present "pretax debt repayment" system is equivalent to getting an advance payment from the government, which will be paid back at a later date. In this way, we reduce the tax base and limit the amount of taxation directly, and in turn we limit the necessary increase in government revenues and diminish the

effects of tax rates and interest rates. Thus, to fundamentally solve the financial problem, we must discard this method that "profits only one side." We suggest that when the contracts expire in 1990, most enterprises should convert to "tax-exclusive contracts" instead. Specifically, we should lower the enterprise income tax, abolish the regulatory [business] tax, separate taxes from profits, stipulate after-tax debt repayment, implement property rights reform, execute tax-exclusive contracts, separate enterprise finances from public finance, standardized management practices, and exercise stronger restraints.

—We should readjust the financial resource distribution among the central government, the local governments, and the departments and change the way the central government subsidizes the localities and departments. Based on an analysis of the 1989 budget, the central government has 166.7 billion yuan in revenues (including the 44.5 billion yuan turned over by the localities,) which account for 58.4 percent of the 285.6 billion yuan in total domestic revenue for the year. Local revenues total 118.9 billion yuan (deducting the revenues turned over to the higher authorities,) accounting for the remaining 41.6 percent. The percentages seem to indicate that the central government's share of revenue is fairly substantial; however, the central government has to spend 56.1 billion yuan of its revenues to subsidize the localities (11.5 billion yuan more than what the localities turn over.) Thus, if we look at the expenditure side, the central level accounts for only 40 percent while localities account for 60 percent of the spendings. It is clear that as far as the financial relationship between the state and the localities is concerned, besides adjusting the relative shares, it is more important to improve the way the central government grants subsidies and the way the subsidies are being used. At present, most of the financial resources handed down by the central government in the form of subsidies are fixed, either in amount or in rate, and so it is impossible to implement the macroeconomic policies. Only a very small percentage of the subsidies are earmarked for specific projects, and the rest are looked upon as "meal tickets" by the localities. They are not put to use on constructions and so on, and so these subsidies are never "paid back" (that is, generate more revenues.) Of course, it will take time to change this situation. From now on, subsidies should be granted in coordination with the reform of the financial system and should be earmarked for specific projects. As far as the people's daily needs are concerned, the localities should strive to make ends meet out of their own revenues. If we can accomplish this, even if the share of financial resources controlled by the central government is not increased by much, its macroeconomic regulation and control capabilities can still be enhanced and the macroeconomic policy goals are still attainable. In the nearterm, we should raise the proportion of the central government's disposable financial resources: (1) Next year (1990,) while we keep the

local financial contract system intact for the time being, we should raise the contract incremental rate by 1-2 percent for the 17 provinces and municipalities delivering revenues to the central authorities, and we should reduce subsidies to provinces still receiving subsidies by 20 percent. (2) The financial preferences granted to Guangdong and Fujian provinces will be revoked in 1991. They will be put under unified planning and will be required to turn over more revenues to the higher authorities. (3) Local extra-budgetary revenues will be brought under local budget management (but can be itemized.) (4) We should redistribute the financial resources between the central government departments (including the war industry) and the state and increase the amount or the percentage of revenues to be turned over to the central authorities.

—We should lighten or discard the four big financial burdens in order to turn the revenue-expenditure cycle into a benign cycle. Handling the financial relationship between the central and local governments is like dividing up a glass of water. To solve the financial problem, basically we need two glass of water instead of one. At present, the stumbling blocks to getting “another glass of water” are: (a) the price subsidies; (b) enterprise loss offsets; (c) pre-tax debt repayment; (d) the sharp increase in principle and interest payments on foreign and domestic debts. In 1988, these four items cost us a total of 95 billion yuan, which was equivalent to 36.7 percent of the state's total revenue. In 1989, they have risen to 120 billion yuan, or 42 percent of state revenues. At this rate, it could reach 50 percent by 1990. In other words, half the revenues we work so hard to raise cannot be used on normal expenditures. Price subsidies and debt repayment are overt expenditures, but enterprise loss offsets and [pretax] debt repayment are covert expenditures, which distort the government's real revenue situation. This is one of the main reasons why presently the government's nominal income is lower than its real income by about 4 percentage points. On the one hand, enterprises are screaming about their heavy burden and high taxes, but on the other hand, government revenues as a percentage of the national income have been falling steadily—all because of the increase in covert subsidies. If we go on like this and continue to increase everybody's after-tax apportionment by the same amount to “regulate” income, the only outcome will be “the inferior further eroding the superior” and eventually dragging down the superior. Today, there are several feasible solutions:

(1) We should consolidate the enterprise loss subsidies and gradually eliminate the money-losing enterprises to lighten the burden, so that we can go through the financial cycle without burden.

At present, enterprise loss subsidies amount to about 50 billion yuan, and all signs indicate that they will continue to increase rather than decrease. They have seriously eroded the state's normal income, preventing the steady

increase in state revenues. We must make a commitment to solve this problem. Beginning in 1990, with the exception of foreign trade losses, all other enterprises incurring losses must “itemize their income and expenditures,” and their subsidies will be reduced in installments, depending on whether their products are over-supplied or in short supply, whether the losses are due to policy or management, whether the losses are temporary or chronic, and whether they are producing new products using new technologies or old products using obsolete technologies. We should “reward the superior and eliminate the inferior.” For the time being, foreign trade losses need not be itemized, but we should study the situation and make plans to reduce the losses.

(2) We should consolidate government price subsidies, strengthen management, and gradually reduce the government's price subsidy burden.

To stabilize the market and ease the people's minds, it is essential that, as we make rectifications and improvements in the next 3 years, we spend ample financial resources to support the market and keep prices from rising too fast. But at the same time, we must pinpoint and correct the various improper methods and plug the loopholes in the present price subsidy policy, strengthen management, and cut subsidies. We can strengthen subsidy management and control the scope and the scale of subsidies first, and then implement step by step reform. In the next 3 to 5 years, we should strive to lower the amount of government price subsidies as a percentage of domestic revenues from the present 15 percent to around 12 percent, and to below 10 percent by the latter part of the Eighth 5-year Plan. The way to achieve this goal is: (a) We must carefully sort out the price subsidies and eliminate subsidies for some nonessential products. (b) We should reform the existing “one big pot” price subsidies and reduce, and slowly eliminate, some operation-type subsidies. (c) We should implement a subsidy-sharing system and reduce the amount of government-guaranteed subsidies. (d) We should make the state-run circulation link less dependent, and eventually eliminate their dependency, on the government's price subsidies.

#### **Adjust the Focus of the Monetary System Reform Strategy, Reinforce the State's Macroeconomic Financial Control, Balance Credit, and Stabilize the Currency**

Reform of the monetary system has made fairly good progress in recent years, but the reform strategy tends to emphasize reform at the microeconomic level and ignore the reform of the regulation and control mechanisms at the macroeconomic level. It tends to emphasize extensive growth rather than intensive growth, emphasize the diversification of financial activities at the expense of orderly transactions. They are primarily responsible for the banks' loss of macroeconomic control and the serious phenomenon of “extra-systemic circulation.” To strengthen macroeconomic control, balance credit income and expenditure, and stabilize the money supply,

we must start with building a macroeconomic adjustment mechanism and standardize the management of financial institutions and make the financial activities "lively and orderly," promote "intrasystemic circulation," and [let the financial institutions] "operate according to law and compete legally."

We need to enhance the central banks' capability to regulate the money supply and credits at the macroeconomic level. We need to strengthen People's Bank of China's role as the central bank, reinforce its independence, and give it full responsibility to regulate and control the money supply. The central bank must give up all credit and quasicredit business activities. When the central authorities retrieve the right to appoint and dismiss the bank managers of the provincial branches, it will curb the tendency of the central bank branches to operate as if they were local banks, but the central bank will be constrained by the central authorities and the various departments. For this reason, we suggest reorganizing the central bank's board of directors. We should let the People's Congress appoint or dismiss the board members and add a few well-known economists and experts to the board. In addition, the president of the central bank should not chair the board, and the central bank should be under the dual-leadership of the Standing Committee of the People's Congress and the State Council.

We should establish a set of rules for the monetary system that is compatible with China's situation. According to practical needs, we should focus on the following major rules in the next 3 years:

(1) Setting the money supply rules: This includes defining the ultimate objectives of the monetary policy, quantifying the money supply for the next 3 years, which will serve as an interim goal, determining an operation system and its goals, and establishing a control system (planned control, guidance windows, and financial market control), an adjustment system (relending rate, reserve requirement rate, and interest rate), and a warning system.

(2) Setting rules for financial institution competition: They include restrictions on the key competitors (to prevent the use of the dual-track fund system and prohibit exorbitant profits), limits to the scope of business (to avoid relaxing proper enterprise supervision because of illegal competition), and the element of risk in the competition (to prevent enterprises from neglecting the efficient use of funds because there is no risk of bankruptcy).

(3) Setting rules for the workings of the financial market: This includes promoting the use of notes and bills in commercial credit and expanding bank discount operations (opening up more fund circulation channels), improving the short-term lending and borrowing market (preventing the long-term use of short-term funds and the misdirection of the flow of funds), putting the long-term market in order (guiding the long-term fund

gathering operations and controlling the overall volume), developing intrasystemic circulation, and curbing extra-systemic circulation. It also means reinforcing the banks' intensive reform, giving play to banks' role as financial intermediaries, using the monetary funds more efficiently, and promoting steady economic development. The key points are:

1) We need to amplify the bank's interest mechanism, establish an interest rate system which is adhered to by the central bank, the specialized banks, and the financial institutions at all levels and give full play to the role of interest rates as an economic lever that regulates the flow of funds.

2) We need to speed up the reform of the credit fund management system. Special credit funds should be set up for those funds which must be guaranteed (such as agricultural product procurement funds). We should control the total volume of fixed asset investment loans. We should set a quota for the lending of circulating funds; additional interests will be attached to above-quota loans. Shanghai and Shenzhen are managing their local funds separately, but we should still control their overall volume and prevent them from creating more money and credit at will.

We must make the utmost effort to retrieve more credit funds from circulation, strive to increase savings, speed up debt collection, and treat the matter of bad debts seriously. For the next 3 years, the banks should concentrate on sustaining the increase in savings. By improving savings services (for example, making things more convenient for the customers, offering better service, and expanding deposit and withdrawal at call services,) developing new savings categories, paying higher interest on savings, and by acting as payroll agents, the banks should strive to increase savings deposits by 100 billion yuan each year. We should sort out the outstanding loans properly and collect them in a timely fashion in accordance with the existing industrial policy. Henceforth, when extending new loans, we must insist on collaterals, either in the form of assets or notes. We want to minimize bad loans. From 1990 on, banks at all levels should set up a bad-debt reserve fund. They should decide on a quota, and they are responsible for bad loans in excess of the quota.

**Implement Thorough Reform of the Enterprise Mechanisms, Improve Enterprise Economic Efficiency, Reduce Consumption, Enhance the Ability to Digest, and Further Smooth Out the Financial Resource Distribution Relationship Between the State and Enterprises**

Enterprise economic efficiency has a direct effect on the nation's overall economic situation. Thus, implementing thorough reform of the enterprise mechanisms and improving enterprise economic efficiency are fundamental to improving the nation's macroeconomic situation. In the 3 years of rectifications and improvements, constrained by our national strength, it may be necessary to readjust the pace of reform in other areas. To the best

of our ability, through rectification and improvements and implementation of thorough reform in these 3 years, we should try to install a self-driving mechanism and a self-restraining mechanism in enterprises. We must sever the "umbilical cord" and cure their dependency on public finance.

In implementing thorough reform, we should sort out those state-run enterprises which are currently under the contract system or the lease system. We should have a practical and realistic approach and deal with each enterprise separately on its own merits. Some should continue to operate under the contract or lease system, and we should further improve the contract and lease mechanisms to enable enterprises to better take care of their profits and losses. Others may get out of their contract or lease arrangements when their terms expire, and taking advantage of the property rights reform and the policy of separation of profit from taxes, they are free to run their businesses after paying taxes and be completely independent. A few qualified enterprises can try the shareholding system, and by following set standards, they can operate as limited liability shareholding companies. We must enforce the terms of the contracts entered into by enterprises. If the terms are not fulfilled, the contractors will be held economically responsible. For enterprises remaining in the contract or lease systems, the contract base or the incremental percentage may be adjusted, depending on the situation.

The reform of the enterprise property rights system should be done properly and in accordance with the principle of paying compensation for the use of enterprise properties and for the transfer of property rights. In compliance with the stipulation that whoever makes the investment should get the benefits and that the transfer of assets should be permitted, we can eliminate the boundary between the stock and the flow of assets and the boundary between investments and assets, and together with the policy of selection of the superior and elimination of the inferior enterprises, we should permit a reasonable amount of mergers and transfers. At the same time, we should speed up the formation of a state-owned asset management system and do a better job with enterprise asset disposal, preservation, supervision, and profit distribution. To accomplish the above reform, we must also be diligent about the basic enterprise reform tasks, such as sorting out the assets, assigning ownership, and assessing the properties.

We need to readjust the financial resource distribution relationship between the state and enterprises. We should follow the principle of "balancing the burdens, creating a reasonable amount of bias, effecting proper adjustments, and making a gradual transition" and gradually change the present situation where the state-run enterprises are assigned an unfair and excessive burden. Other enterprises of a different economic makeup and the public agencies should share the financial burden. We suggest: (a) For the next few years, instead of increasing the tax categories and the tax rates as the way to boost government revenues, we should apportion the

burden fairly, and on that premise, we should do a better job with collecting those taxes that are due but are not yet collected, and we should make the present tax base more productive. (b) While we continue to emphasize industries as the main source of revenue, we should also look to the construction industry, commerce, the service industry, and the entertainment business and so on. We should pay more attention to levying taxes on income generated by public agencies to reinforce the government's revenue base. (c) As we de-emphasize state-run enterprises as the state's main source of revenues and gradually equalize the tax burden, we should implement a pluralistic, reasonable payment system. We should tap new financial resources from the new economic entities. (d) We should improve and perfect the system by which we supervise enterprise depreciation, overhaul expenses, and after-tax profit utilization.

Within these 3 years, we should focus on the units that are experimenting with the enterprise shareholding system. We should lay the groundwork and create favorable conditions. The emphasis should be on formulating regulations, setting up an examination and approval system, and standardizing management practices. We should carefully check and verify the assets owned by state-run, collective, and other yet unspecified enterprises that are implementing the shareholding system to prevent them from appropriating state properties.

#### Interview With Finance Society Leader

HK1511061989 Beijing JINGJI RIBAO in Chinese  
3 Nov 89 p 3

[Article by Li Lun (2621 0243): "Strengthen the 'Blood-making' Function of the National Economy—An Interview With Xu Yi, Vice President of the China Finance Society"]

[Text] This reporter recently interviewed Comrade Xu Yi, Vice President of the China Finance Society and former director of the Scientific Research Institute of the Ministry of Finance. He aired his views on China's present financial difficulties and the ways to solve them.

[JINGJI RIBAO] What do you think is the most prominent difficulty in the financial field?

[Xu Yi] An adequate fund is necessary for improving and rectifying the economy and deepening reform, but financial revenues and expenditures are out of balance because funds are decentralized and there has been a continuous drain on income. This situation is deteriorating. A direct cause of our financial difficulties is the drain on national income and overdistribution of this income. The drain on national income cannot be seen in statistics of national income; it is an economic phenomenon outside the state's monitoring range. According to my calculation, the drain on national income in the circulation field for the last few years has amounted to 600 billion yuan, and for the last 10 years the overdistribution of national income has totaled approximately 500 billion yuan. This drain and overdistribution have



exceeded 1,000 billion yuan. In addition, extra budgets have totaled 8,000 billion yuan for the last 10 years. The proportion of budgetary revenues to national income dropped from 37.2 percent in 1978 to 18.3 percent in 1988. This has immensely impacted state finances, particularly central finances. Therefore our financial situation is very difficult.

[JINGJI RIBAO] As state finances have been tight for consecutive years, this will produce a major impact on the entire socioeconomic life.

[Xu Yi] This point has been very obvious these few years. All kinds of contract systems have become "obstructions" causing fund shortages in departments, enterprises, and banks. Thus some commodities have fallen short of supply and others are overstocked. The double track price system is like "septicemia" causing a drain on national income, and the drain on and overdistribution of national income have caused a drop in finances and economy. Functional deterioration has given rise to "osteomalacia," which has weakened financial control and regulation over the national economy. These three diseases have disrupted the "bloodmaking function" of the national economy and brought about an abnormal economic structure and a drop in economic results. Therefore the root cause of our financial difficulties is the abnormal economic structure. The imbalanced economic volume and structure, the excessive expansion of accumulation and consumption, and the budgetary and credit deficits have resulted from the diversification of investments, the double track price system, and the contract system in the financial and monetary fields. "Gearing all efforts toward making money," which runs counter to socialist principles, and the "double track price system," which violates the law of value, have brought about unhealthy trends in society and a drain on national income and are the root cause of a decrease in large- and medium-sized enterprises' production, a rise in production costs, a drop in profits, failure in fulfilling the targets for financial revenues, and an increase in losses, deficits, and bonds.

[JINGJI RIBAO] Financial problems have become prominent in our country, but no serious solution has been found. How do you look at it?

[Xu Yi] The financial difficulties mentioned above have something to do with Comrade Zhao Ziyang, who ignored suggestions from many comrades in financial circles. For example, comrades in our Ministry of Finance mentioned that there was overdistribution in national income, but Comrade Zhao Ziyang did not want to listen at all. He said this did not hold water either in theory or in practice and asserted that their purpose was to negate reform. But these are facts and could be witnessed from price increases at that time. Thus in financial work some people mistakenly thought "deficits were harmless." This caused the decentralization of funds, weakened our financial function, and brought about a continuous decrease in revenues. On the other hand, he advocated the idea that "feeding the people

depends on finances and construction depends on banks"; demanded that finances withdraw from the regulatory economic field; restricted the role of finances in regulating the national economy; discarded the regulatory role of financial and taxation levers; abolished financial macrocontrol over the national economy; and weakened the functions of finances. Organizing the distribution of social products and national income is the principal function of a socialist country and is a precondition for an independent country as well. Negating or opposing this function means opposing the socialist system. Since 1984 he had refused to reduce the capital construction scale. When there was a need to carry out a resolute adjustment, he talked about "soft landing" on several occasions; and when inflation caused price increases, he proposed the theory of linking wages to profit delivery and tax payments, in an attempt to negate the necessity of adjusting the national economy. In addition, some people were not very clear about the "budgetary deficits" proposed by Keynes, and wanted to transplant it to China. As a matter of fact, Keynes' "budgetary deficits" concept is aimed at securing an overall national economic balance at the expense of financial budgetary balance, the purpose being to preserve the capitalist production mode. Under the socialist economic operational structure, there is no mechanism that causes "inadequacy in effective demand," nor is there any "inadequate effective demand" arising from capitalist exploitation or "floating social capital" resulting from capitalists' unwillingness to make further investments due to overproduction. Keynes' doctrine is unsuitable for China's economy.

[JINGJI RIBAO] What is your idea on alleviating the present financial shortage in our country?

[Xu Yi] Finances are based on the economy. A fundamental way to solve our financial difficulties is to strengthen the "bloodmaking function" of the national economy. In the course of improving and rectifying the economy, it is necessary to take away the firewood from under the cauldron and to make our minds to reduce the scale of investments in fixed assets so as to eliminate inflation. We must be resolute in abolishing the "double track price system," in introducing the specialized management of important production materials, in banning all sorts of speculation, in stopping the drain on income, in straightening out the general mood of society, and in guaranteeing material supply for large- and medium-sized enterprises and key projects. It is necessary to introduce stricter plans, to restrict spontaneity, and to adjust the national economic and investment structures. The role of finances should be brought into play in distributing and redistributing social products and national income and in guiding the orientation of investments in the course of economic construction. Financial reformation and the distribution of national income should proceed on the basis of studying the distribution of the three major funds (the compensatory fund, the accumulation fund, and the consumption fund) and the six deductions explained by Marx in "Critique of the



Gotha Program." According to the national economic accounting system, investment and production activities in the entire society should be supervised in an overall manner, a table should be worked out for fund circulation, and a distribution policy should be formulated on this basis. All investments involving accumulation and consumption arrangements should be put in the distribution plan on social financial resources. Efforts should be made to eliminate financial and credit deficits and to bring about an overall balance in finances, credit, foreign exchange, and material supply. In the form of company, enterprises should establish an economic system under which they assume responsibility to the state. The contract system should be abolished and replaced with a system of profit delivery and tax payments. Different taxation systems on central and local finances should start in 1991 with the aim of striking a balance between all localities and setting up one-grade [yi ji 0001 4787] political power, one-grade administrative power, one-grade financial power, and one-grade budgetary power. Although sales of commodities within open regions and special economic zones are free, these regions and zones must pay taxes when exporting their products. This will stop loopholes in the circulation field. During an adjustment for years to come, we should strive to fulfill the following: The scale of investments in fixed assets should be reduced by 100 billion yuan as compared with 1988, financial deficits should be eliminated (special arrangements will be made for state debts), credit receipts and payments should be balanced, and the price index should remain at approximately 10 percent. These constitute a necessary guarantee for restoring the "bloodmaking function" of the national economy.

## INDUSTRY

### Glass Fiber Plastics Industry Makes 'Rapid' Progress

OW1211115089 Beijing XINHUA in English  
1458 GMT 9 Nov 89

[Text] Dalian, November 9 (XINHUA)—China has made rapid progress in developing its glass fiber reinforced plastics industry since the country began the reform and open policy in 1978.

According to the China Glass Fiber Reinforced Plastics Society, which has just been set up in north China's Dalian City, advanced technology and equipment have been imported to boost the industry over the past decade.

So far, 1,500 enterprises in the industry have been set up in the country, producing over 1,000 kinds of glass fiber reinforced plastics, materials noted for their lightness, corrosion resistance and high strength.

The production of the material in China, mainly for military use in the past, is now also aimed at a wide range of civilian uses.

### Liaoning's Dalian Shipyard Builds 'Largest' Oil Tanker

OW1211120189 Beijing XINHUA in English  
0727 GMT 10 Nov 89

[Text] Beijing, November 10 (XINHUA)—An 80,000-ton oil tanker under construction in the Dalian Shipyard in China's northeast Liaoning Province will be the biggest China has ever made.

A 30,000-ton tanker is being built in the same yard. Work on both started over a month ago. When completed, the ships will be sold to Norway and Sweden.

The orders for the ships show that China's shipbuilding industry has reached a new level of competitiveness on the world market. A dozen foreign companies are negotiating with the shipyard for big-tonnage vessels.

Ship design by the Dalian yard has reached international standards. For the 80,000-ton tanker, the designers provide larger oil tanks than usual and for the first time use a honeycomb duct on the stern to increase speed.

The ship will have a 9560kw diesel engine.

### Shanghai To Produce Quartz Vibrators for Watches

OW1311025789 Beijing XINHUA in English  
0838 GMT 11 Nov 89

[Text] Shanghai, November 11 (XINHUA)—A production line for making small quartz vibrators for clocks and watches was set in motion Friday in a Shanghai plant, ending the need for China to import them.

The small quartz vibrator is a high-technology product and vital to quartz clocks and watches. It can keep a watch accurate to within plus or minus 0.5 seconds a day.

Much of the equipment for the production line, which represents a \$2 million investment, was made by China.

The line can produce three million small quartz vibrators a year, which is sufficient for the needs of the Shanghai clock and watch industry.

## FOREIGN TRADE, INVESTMENT

### Inner Mongolia's Border Trade With USSR, Mongolia

90OH0123B Hohhot NEIMENGGU RIBAO in Chinese  
25 Sep 89 p 1

[Article by Zhang Jinbo (1728 6855 3134): "Flourishing Development of Inner Mongolia's Cross-Border Trade and Economic Cooperation with the USSR"]

[Text] Cross-border trade and economic and technical cooperation is developing well between Inner Mongolia and the USSR and Mongolia for the shaping of a northern open zone running from east to west that is

playing an increasingly important role in the overall strategic pattern of the autonomous region's economic development.

In 1983, the region revived the long interrupted cross-border trade with the USSR in accordance with a Sino-Soviet agreement. The import-export trade figure for that year was 2.73 million Swiss francs. By the end of 1988, trade volume increased to 120.29 million Swiss francs for a 43-fold increase in 6 years. Inner Mongolia's cross-border trade with the Mongolian People's Republic revived in 1985, the volume of imports and exports developing from 630,000 Swiss francs to 19.75 million Swiss francs. Currently many leagues and cities, as well as some border area banners and counties in Inner Mongolia have set up official organizations for cross-border trade with the USSR and Mongolia, forming a multilevel, multichannel network for cross-border trade with the two countries.

Economic and technical cooperation with the USSR and Mongolia has been approved, and agreements for 12 projects totaling 290 million Swiss francs have been put into effect. The main fields of cooperation include vegetable farming, logging, contracting of construction projects, operation of joint venture cooperative enterprises, as well as the export of labor services. According to statistics, Hulun Buir League, the Greater Hingan Range Forest Administration, and construction departments from Hohhot and Baotou have sent more than 3,200 technical and labor service personnel to various parts of the USSR to carry out project contracts. During the period 1983 through 1988, the value of Inner Mongolia's cross-border trade imports totaled 150 million Swiss francs. Imports included 150,000 tons of cement, 120,000 cubic meters of timber, as well as processed steel, petroleum, and chemical industry raw materials, which eased, to a certain extent, the region's critical industrial and agricultural production needs in these regards. During the same period, the value of the region's exports totaled 164 million Swiss francs, 98 percent of which were textiles and the means of livelihood. This promoted the autonomous region's economic development.

The region's active development of cross-border trade and economic and technical cooperation with the USSR and Mongolia have gained the vigorous support of the Party and the state. In January 1988, the State Council approved Hulun Buir League as an experimental area for reform of the economic system. Guided by a three-in-one overall strategic policy of reform, opening to the outside world, and development, during the past year this experimental zone has actively developed an externally-oriented economy, gradually forming a forward area zone for the region's development of cross-border trade and economic and technical cooperation with the USSR and Mongolia. In addition to the original land ports of entry at Manzhouli and Erlian, in 1988 the State Council approved the addition of two water ports of entry at Shiwei and Heishantou in Ergun Left Banner. It also permitted the continuous addition of other ports of entry as conditions mature. The problem of highway movement of goods has also been

solved. Thus, the region's rail, highway, and water trade routes with the USSR and Mongolia have been opened one after another.

Depending on the region's own resources for active development of lateral economic ties outside the region, and the two way opening up to the north and forging links with the south are important policies for the region's development of trade and economic and technical cooperation with the USSR and Mongolia. More than 70 percent of the goods that the region has exported to the USSR and Mongolia through barter trade during the past several years has been provided from within the region. While insuring fulfillment of state agreed upon trade, and while following the principle of "mutual benefit," the region has also drawn upon some sources of supply from outside the region, taking in an appropriate amount of capital and technology from fraternal provinces and regions for the building of bases for exports to the USSR, and for the development of economic cooperation with the USSR and Mongolia. As a result of the opening to the north and forging links with the south, Inner Mongolia has not only provided both the region, and the fraternal provinces and regions with some of the means of production in extremely short supply in China, as well as widened trade channels, it has also laid a solid material foundation for the development of cross-border trade and economic and technical cooperation with the USSR and Mongolia.

#### **Problems, Developments in Sino-Mongolian Trade**

*90OH0123A Beijing GUOJI SHANGBAO in Chinese  
5 Oct 89 p 3*

[Article by Zhang Yanlin (1728 3601 2651): "Active and Steady Development of Sino-Mongolian Economic and Trade Relations"]

[Text] Sino-Mongolian trade began in 1951 when the governments of the two countries signed an annual trade protocol. In 1986, both parties signed an intergovernment long-term trade agreement to run from 1986 through 1990. This was the first long-term trade agreement that the two countries signed since the 1951 inauguration of trade relations, and it held important significance for further development of Sino-Mongolian trade relations. In 1988, both parties re-revised and signed "Common Conditions for Deliveries." In 1989, an intergovernment committee for economic, trade, and scientific cooperation was established. The protocol, the signed agreement, and the founding of the mixed committee lay a fine foundation for steady development of Sino-Mongolian trade.

#### **Fairly Rapid Development of Sino-Mongolian Trade Since the 1980's**

One might say as a result of a review of the past more than 30 years of development of Sino-Mongolian trade that Sino-Mongolian trade has gone through the three stages of development (1951-1961), decline (1962-1976), and revival and steady development (1968-1989). The

year of highest bilateral trade was 1960, when it reached \$41.92 million. The lowest year was 1967, when it was only \$810,000. The volume of trade between the two countries began to revive after 1968, reaching between \$6.5 and \$10 million annually in a very low rate of increase. Since 1980, the volume of trade has increased fairly rapidly with improvement in relations between the two countries. In 1988, trade covered by agreements between the two countries reached \$14.22 million; however, most of this increase derived from an increase in railroad cross-border transportation fees, meaning that China exported more commodities to pay transportation fees incurred in the importation of commodities from the USSR and East Europe that were delivered by railroad across Mongolia. Most rapid increase occurred in trade outside of agreements, which amounted to \$15.52 million in 1988, the total from the two sources amounting to \$29.74 million, making 1988 the year of the highest volume of transactions in the past 20 years. The volume of import and export trade between the two countries may reach \$35 million in 1989.

#### **China's Exports Very Well Received in Mongolian Markets**

In 1989, China exported more than 190 different commodities to Mongolia, principally textiles, light industrial wares, electromechanical products, and chemical industry products. Products included clothing, underclothes, sportswear, canvas, silks and satins, hot and cold vacuum bottles, fruit, and other items, all of which are in great demand in Mongolian markets. China imports somewhat 100-odd different types of commodities from Mongolia, eight of which are covered by government agreement. These are horsehide, dried otter fur, lumber, deer tails, and deer antlers. Other imports derive from cross-border trade and barter trade outside of government corporation agreements. They consist mostly of chemical fertilizer, scrap steel and iron, aluminum ingots, scrap copper, scrap aluminum, waste paper, newsprint, pigiron, old tires, rugs, woolens, heavy woolen cloth, skins and hides, woolen overcoats, steel reinforcing bars, steel wire, cement, camels hair, and timber. Reportedly, the above commodities are very well received in China.

#### **Active Development of Cross-Border Barter Trade**

Simultaneous with the development of intergovernment agreed upon trade between the two countries has been the development of cross-border trade between the Inner Mongolia Autonomous Region and Mongolia dating back to 1985. In 1988, the Tibet Autonomous Region also began cross-border trade with Mongolia. In addition was barter trade between Chinese government corporations and Mongolian companies concerned. Sino-Mongolian agreed upon foreign trade consists of the above three kinds.

A characteristic of trade not covered by government agreements is its rather flexible methods. Import and export accounts are kept centrally, gains balanced against losses, exports supporting imports to kill two

birds with one stone. In addition, trade between the two sides is not limited by time or place. Agreements can be made and transactions made at any time as the availability of goods and needs require, which is extraordinarily convenient. Because of the use of the simple direct exchange of commodities at equal value, final settlements do not go through banks, thereby avoiding endless controversy about prices. Both parties need only decide the proportions and amounts of goods to be exchanged, each side making its own calculations. When they feel a deal is worthwhile, an exchange can be made. A look at the development of barter trade outside of agreements between China and Mongolia shows a rapid and large increase in the volume of trade that is completely surprising. Today, it far surpasses the volume of trade covered by agreements.

The first imports and exports made in 1985 amounted to only \$370,000, but by 1987 volume already reached \$5.63 million in a 15-fold increase over 1986. By 1988, it reached \$15.52 million in a nearly threefold increase over 1987. It is expected to reach \$23.7 million in 1989, for an approximately 1.5-fold increase over 1988. Spurred by the rapid development of cross-border trade, as well as the vigorous publicity and assistance provided by the commercial counsellor's office in China's embassy in Mongolia, the Chinese national corporations concerned have gradually changed their sole concern with the volume of agreed upon trade, and thinking only of increasing its volume. Instead, they have begun active development of barter trade with Mongolia outside of trade agreements. In 1988, the China Metals Import-Export Corporation visited Mongolia for the first time, signing a \$1.78 million barter agreement. In 1989, six national corporations signed barter agreements with Mongolia totaling \$3.4 million. This is almost equal to slightly more than 80 percent of China's imports from Mongolia covered by Sino-Mongolian government agreements.

#### **Main Problems Existing Today**

(1) Insufficient supplies of goods make imports difficult. Mongolia's exports are limited, an overwhelming majority of its main commodities being supplied first to Council of Mutual Economic Assistance countries. Currently, 97.6 percent of Mongolia's foreign trade is with socialist countries, and 96 percent of it is with Council of Mutual Economic Assistance countries. In recent years, Mongolia has re-emphasized protection of the natural environment, limiting and gradually decreasing the export to China of commodities in the form of raw materials. The kinds of commodities supplied China under agreements have become fewer and fewer, and the supply of some of them, such as timber, cashmere, and lambskin has even been halted. At the same time, Mongolia has asked China to take Mongolian industrial manufactures or semi-manufactures such as flourspar, coal, white spirits, blankets, and leather jackets. Since China also exports large amount of these same commodities, in addition to which Mongolian prices are high and

quality inferior, and because of transportation problems inside China, it has been very difficult to conclude any transactions as yet.

Since Mongolian markets have a dearth of commodities used in daily life, and since China's export commodities are so well suited to Mongolian market needs, plus the short delivery distance, the Mongolians are very active in the development of trade with China. They also think actively about ways to find goods for export to China. This is extremely beneficial for China. Therefore, we should actively use this favorable circumstance to try to expand trade with Mongolia.

Because of the frequent uncertainty and irregularity in the availability of goods supplied through barter trade outside of agreements, the amounts varying, China's national corporations concerned must be familiar with the commodities involved, understand the market situation, and keep abreast of domestic market needs, while not being bothered by irritations, trading in a flexible manner.

In addition, they should actively develop entrepot trade. This is a market having substantial potential, and the Mongolians are also very interested in it. China's current importation of goods in transit across Mongolia from the USSR account for 30 percent of China's total trade with Mongolia. This includes commodities such as chemical fertilizer, processed steel, pig iron, and aluminum ingots. In addition, the processing of imported materials, and the processing of goods according to buyer's samples can be developed. The Mongolians are also very interested in this.

(2) Pricing problems. For many years, the Mongolians have been accustomed to keeping old commodity prices unchanged. However, in recent years, China's national corporations concerned four times requested the Mongolians to lower prices for lumber imported from Mongolia in view of changes in international market prices. The Mongolians have requested reciprocal price adjustments. China should give overall consideration to this matter.

(3) Lack of a unified position toward the outside world. Internal conflicts damage transactions. This is a fairly conspicuous problem in border trade. Accompanying the rapid development of cross-border trade and an increase in the number of ports of entry, many people have begun to become involved, and internal conflicts have occurred. It is suggested that administration and coordination of cross-border trade with Mongolia be improved, designated organs being established to take charge. Control to limit prices may also be instituted, minimum export prices, and maximum import prices, and the amount of fluctuation in prices being published regularly. Foreign trade corporations might also coordinate prices.

#### **New Development of Sino-Mongolian Economic Cooperation**

Never in their history have China and Mongolia entered into economic cooperation with each other; thus one might say that the current economic cooperation

between the two countries has arisen under the current new historical conditions. It is a new development of purely trade relations.

Currently, both sides have a total of nine protocols, letters of intent, or contract agreements. Six of these have been signed between Mongolia and China's Inner Mongolian Autonomous Region. These six are the key to current economic cooperation between China and Mongolia. They are: technical cooperation on the growing and storage of vegetables; the building of toilet paper plants; small candle plants, small toothpaste plants, small brick and tile plants; and Mongolian processing of piskin and snakeskin brought in from outside.

The Inner Mongolian Autonomous Region has sent survey teams to Mongolia to conduct feasibility examination of the growing of vegetables and of the brick and tile plant. Further talks are currently underway on these matters.

In addition, acting on the principle of equality and mutual interest, being responsible for one's own profits and losses, and striving for a balance in trade, and as a result of contracting and making bids, China has signed a number of agreements with Mongolia for the building of a number of projects as follows:

(1) Contracting of a project to build a Mongolian tourist center. This project was originally contracted by the Mitsutoku Trading Corporation of Japan. Subsequently, the China Construction Project Corporation contracted a part of the project by submitting a bid. Costs are to be borne by Japan, which will make payment in American dollars of approximately \$800,000. Plans call for an 8-month construction period, work to be finished before 31 January 1990. The First Construction Company in Inner Mongolia has already sent more than 70 workers to Mongolia. The project is currently moving along smoothly.

(2) The Ulaanbaatar Guest House Renovation Project. Agreement on this project was signed by the First Construction Company of Inner Mongolia with the Mongolian National Tourism Bureau. The total job requires 3,000 man hours, the Mongolians paying 150,000 tugriks in local currency. Because the Chinese workmen work overtime, work fast, and do high quality work, the Mongolians are extraordinarily pleased, giving them high marks. Some say that "the Chinese workmen of the 1950's have returned."

(3) Contract building of the Ulaanbaatar Municipal Nursery School. Agreement for this project was signed with the Mongolians by the Chinese Complete Plant Export Company in June 1989. The nursery school covers an area of 1,605 square meters, and entails an investment totaling 1.6 million tugriks (i.e., \$530,000). The Mongolians are to pay Chinese labor costs, 30 percent of the amount in tugriks, and 70 percent in commodities. Preparatory work on this project is actively underway. In October 1989, the Chinese are to send construction personnel to Mongolia.

Since Mongolia's foreign exchange payment capabilities are limited, it cannot spend a large amount of foreign exchange on the importation of equipment and in having people contract the building of projects. Thus, the payment issue must be settled first. We believe that the "composite method" is a rather good one, i.e., foreign exchange plus, Mongolian currency, plus products and raw materials. The amount to be paid in each of these ways may be arrived at through discussion and agreement.

### Shanghai Joint Ventures 'Booming'

HK2010014189 Hong Kong SOUTH CHINA  
MORNING POST (BUSINESS POST) in English  
20 Oct 89 p 4

[By Geoffrey Crothall]

[Text] Shanghai's economic and technological development zones (ETDZs) are booming.

More than 80 foreign-funded ventures with investments totalling U.S.\$521.65 million have been set up in the three zones since they were established in 1986.

In the first half of this year, export earnings of the 30 foreign-funded enterprises in the Minhang ETDZ to the southwest of the city totalled \$18.5 million, surpassing earnings for the whole of last year.

Total sales amounted to 232 million yuan (about HK\$487.2 million) and are expected to reach 600 million yuan by the end of the year.

"They've got a good setup in Minhang and a lot of the ventures there are just coming into their stride," a Shanghai-based investment analyst said.

Foreign investors have been attracted to the zones by substantial tax preferences and a convenient labour package.

The analyst said joint ventures had to pay only three basic subsidies as opposed to the myriad labour and welfare contributions that would normally have to be made.

The zones all have a well developed infrastructure, a guaranteed supply of electricity, good transport links, as well as on-site banks and customs houses.

Minhang ETDZ, itself a Sino-Hong Kong joint venture, is primarily an industrial estate and has a number of major foreign ventures, including Coca-Cola, Union Carbide, Universal Toys, Squibb, Seagrams and several Japanese-funded enterprises.

However, not everything at Minhang has gone according to plan. One foreign company signed a land lease agreement only to discover it had leased a swamp and had to drain the land before it could begin building.

Another company was told it would have access to the nearest power station. It only had to dig a tunnel and lay the supply lines.

Since the nearest power station was literally next door the company readily agreed.

The Minhang Corp then informed the company the adjacent power station had been allocated to another venture, leaving the company to dig a tunnel to the next nearest station half a mile down the road.

The Caohejing ETDZ, established last year, now has 14 foreign-funded enterprises, mainly micro-technology and computer ventures, with a total investment of \$191 million.

"Caohejing is also looking good," the investment analyst said.

"A lot of U.S. companies will be coming to have a look around the ETDZs in the next two months. They will not necessarily sign anything, but a lot of people are anxious to reappraise the situation in Shanghai," he added.

Some of the 12 foreign funded enterprises in the Hongqiao ETDZ, however, have been running into financial difficulties.

### Wang Zhaoguo Addresses Fujian Export Conference

OW2011093989 Fuzhou FUJIAN RIBAO in Chinese  
24 Oct 89 p 1

[Text] "After fulfilling state plans, we must continue to do our best to overcome difficulties and overfulfill our other foreign trade tasks to earn more foreign exchange for the state." The above was a new demand on Fujian's foreign trade workers put forward at a conference of the directors of foreign economic relations and trade commissions of various prefectures and cities.

Fujian performed well in foreign economic relations and trade this year, thanks to the efforts of our foreign trade workers, who have overcome money shortages, rising procurement prices, and the impact of the counterrevolutionary rebellion in Beijing. The province has overfulfilled the foreign exchange task given by the state. However, it still has a long way to go to meet the provincial target. At the meeting of the directors of foreign economic relations and trade, Governor Wang Zhaoguo said: We did encounter difficulties in our economic work. However, in the face of difficulties, we must uphold the road of reform and opening, recognizing the achievement made along this road. At the same time, we must resolve, one by one, the major problems in our work. This is a correct approach.

After some discussion, participants at the meeting agreed on the following tasks:

- Serious efforts should be made to organize all cadres and workers to study Jiang Zemin's National Day speech, achieve unity in thinking, raise the morale, and arouse the initiative of the masses on the foreign trade front to earn more foreign exchange for the state.
- Vigorous efforts should be made to tap our inner potentials to ensure the fulfillment of this year's

export task given by the province. Currently, the banking departments have helped us resolve some of the shortages in procurement funds. However, there are still considerable shortages that have not been met. This should be resolved by tapping our inner potentials. It is necessary to take inventory of our warehouses and to export, without delay, whatever goods are exportable. It is necessary to sell to the domestic market at a reasonable price whatever commodities truly cannot be exported. This will help speed up the turnover of funds. It is necessary to step up the calling and collection of matured loans, both at home and abroad. It is also necessary to coordinate with the Bank of China to speed up the foreign exchange settlement. It is necessary to promote exports through the Guangzhou Autumn Export Fair, through business correspondence, and through overseas marketing groups. In addition, it is necessary to do a good job of export quality control to safeguard our foreign trade reputation. Industry, foreign trade departments, and commodity inspection departments should strictly control product quality. Industry should not let substandard products leave plants, foreign trade departments should not procure them, and the commodity inspection departments should not give permission for their export. It is necessary to screen and consolidate foreign trade corporations and the management of major export commodities.

—With regard to attracting foreign capital, efforts should be made to follow up the contracts signed at the Xiamen Investment and Trade Fair to ensure that enterprises concerned will go into operation according to the schedule. Efforts should also be made to help joint ventures already in operation resolve problems in production and management. In addition, efforts should be made to improve service and build a favorable investment environment.

—Efforts should be continued to undertake more foreign engineering projects and increase labor export. It is necessary to make use of the present opportunity created by the recovery of international maritime business to expand labor export and explore new markets involving foreign engineering projects.

### **Dalian Economic Development Zone Attracts Foreign Funds**

OW0911062789 Beijing XINHUA in English  
0257 GMT 9 Nov 89

[Text] Dalian, November 9 (XINHUA)—The Dalian Economic Development Zone in northeast China's Liaoning Province approved the setting up of 337 foreign-funded enterprises involving \$980 million, including \$475 million from foreign investors, in the past 5 years, according to a local official today.

The official, from the Dalian City Commission of Foreign Economic Relations and Trade, said that by the end of September this year, the city authorities had approved 104 contracts on setting up foreign-funded enterprises,

involving a total investment of \$340 million, including \$177 million from the foreign investors, a 47.8 percent increase over the same period of last year.

Among these enterprises, 257 are joint ventures, 65 cooperative enterprises and 15 wholly foreign-funded enterprises. The investors were from Japan, the United States, Federal Germany, and Hong Kong.

The official said that already 193 enterprises have gone into operation and their products have earned \$72 million, 94 percent higher than in the same period of last year. The figure includes \$68 million from exports.

### **Import Licensing System, Procedure in GATT Debated**

90OH0157A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 10, 30 Oct 89 pp 40-43

[Article by Liu Guangxi (0491 0342 3305): "The Import Licensing Procedural Agreement in the General Agreement on Tariffs and Trade [GATT] in Relation to China's Import Licensing System (Continuation)"]

### **[Excerpt] III. Characteristics of China's Import Licensing System, Pros and Cons of China's Joining GATT**

#### **1. Main Points and Peculiarities of China's Import Licensing Control**

##### **(1) Main Points and Peculiarities of the Chinese Regulations**

The current system of China's import licensing is mainly based on the "Provisional Regulations of the PRC Governing the Licensing of Imports," promulgated by the State Council on 10 January 1984 (hereafter "Regulations"), and enforced to control import trade. The Regulations consist of 16 articles, which contain very specific provisions on the objective of import licensing, the scope and content of applications, the form in which control is exercised, the qualifications for filing license applications, the documents that must be submitted, foreign exchange certification, favorable policies for special economic zones [SEZ], for the "three forms of processing and compensation trade," and for joint ventures, refusal, prohibition, and withdrawal of licenses, as well as on the validity and extension of licenses.

A. The objective, scope, and form of import licensing. The purpose of instituting an import licensing system is to initiate control measures in order to develop import trade in an orderly manner, to use limited foreign exchange resources for the importation of materials most needed in the development of the national economy, to promote and appropriately protect the development of domestic production, and to enhance economic efficiency (Article 1 of the Regulations). Import licenses must be applied for and obtained by all localities and departments in advance of importation of commodities that are subject to import licensing control; only then

may orders be placed abroad by corporations authorized by the state to trade in the commodities concerned. Customs shall examine goods and release them on the strength of import licenses. Departments not authorized to engage in import business may, under special circumstances, import by themselves small amounts of urgently needed products from abroad, but may do so only after obtaining approval from the Ministry of Foreign Economic Relations and Trade [MOFERT] or the provincial authority in charge of economic and trade relations, and after also obtaining a proper import license (Article 2). The various commodities placed under import license control by the state shall, without exception, be made public and adjusted by MOFERT, which shall publish the adjusted list of these commodities and the organs authorized to issue licenses (Article 6).

Those commodities for which China's current import licensing system applies classified control are mainly differentiated according to their natural characteristics. Presently, altogether three categories and 53 different items of goods are under import licensing control in China. The list of import commodities subject to import licensing restrictions is not fixed and unchangeable, but is constantly adjusted according to the development of domestic production and changes in the market. MOFERT is the only authority for the issue of import licenses on behalf of the state. Within the scope authorized by MOFERT, provincial departments in charge of economic and trade affairs may issue part of the import commodity licenses for departments within the territory under their jurisdiction. The offices of special deputies of MOFERT may be empowered by MOFERT to issue some licenses for import commodities to relevant departments within the territory of their jurisdiction (Article 3). This form of classified control of commodities subject to import licenses has been instituted to conform with the new situation of the structural reform of foreign trade and of opening up to the outside world. It is aimed, on the one hand, to stimulate enthusiasm in all quarters, and, on the other hand, to enhance the state's macroeconomic control of import trade.

B. Qualifications and conditions of applying and obtaining import licenses. Foreign trade enterprises must operate their import business strictly according to the scope and the list of import commodities approved by the departments placed in charge of these matters by the state. For commodities for which import licensing has been instituted, import licenses must be applied for and obtained. Units, departments, and enterprises that have not been approved for import trade must not import commodities on their own. Commodities which the state has designated as to be imported only by the main establishment of a specialized foreign trading corporation may not be imported by any other foreign trade enterprise (Article 4).

Apart from the "three forms of processing and compensation trade" and the "three-type-capital enterprises," to which special provisions apply, all commodities that are subject to import licensing, regardless of trading pattern,

derivation of foreign exchange, and import channels, must submit to commodity inspection and approval in advance, in accordance with the limits of authority for examination and approval prescribed by the state. On the strength of the documented approval and the foreign exchange certificate, an import license must then be applied for and obtained from the authority in charge of import licensing of the commodity in question. Only then may order be placed abroad for the commodity. A unit that is not authorized to engage in import business must entrust a foreign trade corporation which is authorized to engage in the importation of the commodity in question to place order for the goods on its behalf. For commodities not subject to import licensing, no import license need be applied for as long as importation is within the business scope of the foreign trading enterprise. If importation of the commodity exceeds the business scope of the enterprise, an import license must be applied for and obtained. Enterprises or units which are not authorized to engage in import business must have their imported commodities examined and approved by the department in charge, whereupon they may apply for and obtain import licenses according to regulations (Articles 4, 6, and 11). Beyond that, commodities that may be freely traded and which are not subject to import licensing may be imported by corporations authorized to engage in import trade; even if the importation exceeds the scope of their business operations, an import license is not required in these cases.

C. Favorable policies applicable to SEZs, "three forms of processing and compensation trade" and the "three-type-capital enterprises." If commodities imported by a SEZ are commodities subject to import licensing, they may be examined and approved once a year by the departments placed in charge of such examinations and approvals by the state, according to the state's favorable policy for SEZs. Commodities of unrestricted import by the SEZ for its own use may be checked, approved, and imported by the zone itself. This does not apply to commodities imported by a foreign trading enterprise of the SEZ as agent for someone outside the SEZ. For this kind of commodities the unit that commissioned the importation must, according to regulations, fulfill examination and approval procedures as well as the procedure of applying for and obtaining import license (Article 14).

To facilitate the business operations of foreign-financed enterprises and the active use of foreign exchange, the "three-type-capital enterprises," when in need of importing materials or equipment that is subject to import licensing, may directly obtain import licenses themselves on the strength of lists of material and equipment that have been approved for importation. Import licenses are not required for various materials, equipment, parts, components, and raw materials imported for the production of exports. However, if the material is used to produce products for domestic sales, import licenses must be applied for and obtained every phase based on a confirmed import plan or obtained periodically or in batches (Article 9).



If raw materials, fuel, components, and spare parts, which have to be imported but will again be exported in the course of the "three forms of processing and compensation trade" in the coastal regions, including sets or single items for which imports have been restricted by the state, are items subject to import licensing, they may be exempted from import license requirements if documentary approval is presented by a first-rank government of a municipality under provincial jurisdiction. Customs may release these commodities and exercise supervision over them based on the documentary approval and the contract (Article 5)

D. Exemptions, rejections, and withdrawal of licenses. Article 7 of the Regulations contains specific provisions for exemptions from import licensing requirements, namely for: 1) Samples provided free-of-charge from abroad or bought by specialized corporations authorized by the state to engage in import trade. 2) Urgently needed articles for the professional use of scientific, educational, sports, and public health departments, if of less than \$5,000 value in the international market. 3) Mechanical or electrical parts, components, and precision instruments urgently needed by industrial and mining enterprises, if of less than \$5,000 value. 4) Import goods which the state has especially exempted from import licensing requirements. For items exceeding \$5,000 in value or for the urgent requirements of the same commodities by other than the already mentioned organs and units, import licenses must be applied for and obtained (Article 11).

For imports of the following categories, MOFERT is authorized to refuse import licenses or to withdraw licenses which may have already been issued. These import commodities comprise: 1) Commodities for which the state has forbidden importation or temporarily stopped importation. 2) Commodities that are inconsistent with the state's foreign trade policy. 3) Commodities that are inconsistent with bilateral trade agreements or payment agreements. 4) Medicines, food, animals, plants, agricultural products, animal by-products, and aquatic products that do not meet the sanitation and quarantine standards of the Chinese sanitation, agricultural, animal husbandry, and fishery departments. 5) Commodities that are harmful to state interests or that are subjects of illegal transactions (Article 10). Applicants who practice fraud, or who falsify or forge import licenses will be prosecuted according to law (Article 11).

E. Expiration and extension of licenses. According to Article 12, an import license is valid for 1 year. If importation cannot be effected within 1 year, the unit holding the license may apply to the issuing authority for an appropriate extension, according to relevant provisions. The licensing authority shall generally issue the license within 3 to 5 working days after receipt of the application.

Article 13 additionally provides that Customs may confiscate or order return of commodities imported in

violation of regulations. Perpetrators of forgery, falsifications, or transfer of import licenses shall be dealt with by the Customs according to customs laws. Authority to interpret the present Regulations rests with MOFERT. (Article 15)

## *(2) Main Peculiarities of the Import Licensing System*

China is a low-income developing country. A serious problem faced by developing countries in their economies is the extreme shortage of foreign exchange. One important objective in instituting an import licensing system is to have the limited amounts of foreign exchange used for imports of applicable technologies and key equipment most urgently needed for the development of the national economy, also to control the importation of ordinary equipment and durable goods, and to avoid duplicative and irresponsible imports.

On analyzing the main characteristics of the Regulations, as stated above, we may possibly summarize the peculiarities of China's import licensing system as follows:

First, enforcement procedures of the import licensing system are lucid. The regulations of the import licensing system, its enforcement provisions, application procedures, and the list of controlled commodities, have all been published in the press.

Second, commodities subject to the controls of the import licensing system are very few; controls apply only to some of the commodities for which the state restricts imports. At present, these commodities account for only 2 percent of all items listed in the customs tariff, and the value of these imports accounts for 30 percent of all imports. Products not within the scope of the controls of the import licensing system may be ordered from abroad merely based on commercial considerations by all corporations authorized to engage in import-export trade.

Third, no quotas of any kind are set up for certain countries. The system is not discriminatory, and it does not prescribe that imports must originate from certain places. The holder of an import license is free to choose the territory or country from which he intends to import the commodities specified in the import license.

Fourth, the problem of maintaining the international balance of payments is one of the fundamental reasons for instituting import licensing. The objective is to ensure imports of items urgently needed for economic development, particularly in areas of energy supplies and communications.

Fifth, the criteria for issuing import licenses, and the ratio at which they are issued, are uniform, and no distinctions are made between regions and between commodities. There is flexibility in the case of the SEZs, but merely limited to the imports for these zones. There is only one organ in administrative charge, and it issues import licenses speedily and efficiently.



Finally, obtaining foreign exchange certificates through the import licensing system is a very important aspect of the process. Only receipt of foreign exchange will ensure importation of the licensed commodity. We may therefore say that the crucial point for anyone applying for an import license is his prior receipt of a foreign exchange certificate. Generally speaking, the Chinese import licensing system is essentially consistent with the demands of and agreements subscribed in GATT.

*(3) Differences Between the Licensing System and GATT Provisions*

A. When applying for import license in China, one must have the written approval of the relevant department and the department in charge and also a foreign exchange allocation certificate. In other words, there is a series of applying and checking to be done, prior to applying and obtaining an import license from the import licensing authority. The Agreement, on the other hand, prescribes that procedures should as far as possible be completed at one administrative organ, and that the license issuing organs should be as few as possible.

B. China's import licensing system has no provisions on quotas, also no global quota requirements, while GATT refers to the quota problem in Paragraphs 1 and 3 of its Part 3.

C. In the Chinese import licensing regulations, there are no provisions for non-voluntary approvals, while Part 3 of the Agreement contains specific and detailed provisions for a system of non-voluntary licensing.

D. The Chinese import licensing regulations have no provisions which establish China's Taiwan, Hong Kong, and Macao as independent customs territories, but the Agreement, in its Part 5, Paragraph 4, Section 4, has an all-encompassing provision that allows the application of Sections 1 and 2 of Paragraph 5 of Article 26 of GATT.

E. In Articles 5, 9, and 14, the Regulations provide for a favorable policy to apply to SEZs, foreign capital, and for the processing of imported materials, while GATT makes no reference to any such question.

F. The Regulations have no provisions as to what means are available to an applicant who has been refused an important license, while the Agreement clearly provides in Paragraph 6 of its Part 3 a possibility of requesting a revision or filing a legal appeal.

G. In China, individuals are not qualified to apply for import licenses, while Paragraph 6 of Part 3 of the Agreement provides that individuals are qualified to apply for import licenses.

H. The Regulations have no clear and definite provisions as to how to deal with cases of errors or differences occurring in transportation or in bulk shipments, or other small errors in the commercial handling, or small differences in value or quantity between licensed goods and statements on the license. However, Articles 7 and 8 of Part 1 of the Agreement have clear and definite

provisions to the effect that importation must not be denied to goods of this nature.

From the above analytical comparison we see that although China's import licensing system is essentially consistent with the demands and provisions of GATT and its procedural agreements, it still requires further perfection and improvement in many respects, and that explicit provisions must be added in certain respects in view of the actual development of import trade.

*(4) Benefits From China's Joining GATT and Short-Term Difficulties*

A. Benefits from joining GATT

First, demonstrating intention to join the Agreement can give new impetus to the process of China resuming the status of a member country of GATT, and will enable China to participate as soon as possible in the global multilateral trade system, as it will also promote the reform of China's foreign trade system.

Second, one of the three principles of China resuming the status of member country of GATT is that China will "join GATT with the status of a developing country," and after joining, will of course enjoy the special privileges afforded to developing countries under the provisions of GATT.

Third, one of the four important points of applying the "authorizing paragraphs" is that "in multilateral trade negotiations in reaching agreements on non-customs measures, developing countries are granted different and more favorable customs tariff treatment." As a developing country and signatory of the Agreement, it will be possible for China to enjoy the different and more beneficial treatment granted only to developing countries under the provisions of the Agreement.

Fourth, joining the Agreement would allow China to officially present the actual difficulties arising from import licensing procedures to the Committee, and with sound justification to protect its own rational trade interests and also to expand its exports. At the same time, it would provide China with an international locale for the discussion of this problem.

Fifth, it can give added impetus to China's efforts to perfect its import licensing arrangements, complete the legal provisions in this area, and have China's import development rendered more orderly, more institutionalized, and placed on a better legal basis, so as to achieve a state of "having laws that can be relied upon and having rules to follow."

Sixth, joining GATT will fully manifest the immense effect on our foreign trade structure of our 10-year policy of reform and opening up. It will also show that China's policy of reform and opening up is of a steady and continuous nature, and this will ensure for China an active role in future bilateral and multilateral trade negotiations, and will enhance China's capability to set its own prices.

Finally, as a signatory country of the Agreement, China can obtain, according to Part 3 of the Agreement, data on the distribution of import license quotas of an importing country and statistical data on trade, which will help China in its active export dispositions. China will at the same time obtain prompt information on the quantities and controls of the said country's imports from any third country. Moreover, by joining the Agreement, China can avoid as a contracting party of GATT to be bereft of the rights that no nonsignatory country could enjoy. It would be harmful for China not to have the rights from GATT, and this would in turn reduce China's trade benefits.

#### B. Present difficulties and drawbacks from joining the agreement.

First, in the past, multilateral trade negotiations under the Agreement were always based on economic and trading power, and the agreements that finally emerged were unavoidably slanted toward the interests of the developed member countries of the Agreement. Although we said that the Agreement has in several places references to the special conditions of the developing countries, it lacks provisions of actual significance to that effect. China must, therefore, be cautious about joining the Agreement and be on guard against losing the sight of maintaining a balance of rights and obligations.

Second, China's present economic and trade legislation is still incomplete, and its legal provisions and policies at times are changed or amended, following changes in the income-expenditure balance of its foreign exchange. Coordination of planned control with market regulation is not yet perfectly in place, and it is therefore impossible to guarantee that China's licensing system will be consonant with the Agreement. In Part 5, the Agreement demands that signatory countries "must guarantee that they will amend their national laws, rules and regulations, and administrative procedures to conform with the provisions of this Agreement not later than the day on which the Agreement comes into force." Although we may say that China's import licensing system is essentially consonant with the provisions of the Agreement, it will require further study whether it will be possible, presently, to amend relevant domestic legislation, rules and regulations. We must therefore admit that there are real difficulties for this large developing country that China is, in joining the Agreement and undertaking the obligation of revising its domestic legislation.

Third, the series of procedures that have been mentioned earlier as being the prior requirements for an application for filing an import license with the import licensing authorities cannot presently abruptly be abolished. Lucidity in this respect is not yet fully developed; it seems that every link involved in issuing the license is making it impossible to apply. This situation is difficult to explain to outsiders. It is the biggest obstacle to China's joining GATT. If we were to give up the prior checking and approval procedures and only maintain the

procedure of the license issuing authority, that would indeed make things exceptionally simple and lucid.

Finally, joining GATT may possibly disturb China's plan of balancing its international payments. In view of China's long-standing difficulty of foreign exchange shortages, the import licensing system is one of the effective measures to ensure rational use of foreign exchange and its balance of international payments. If China has a large trade deficit in its relation with another signatory of GATT, it may want to discontinue or reduce imports from that country. However, the Agreement demands equality in dealings with all supplier countries and granting of most favored nation treatment. This is bound to affect China's balance of international payments. Apart from that, there is also the obligation to report and to immediately supply relevant information on one's conditions at the demand of any other signatory country for the consideration of the Committee. As far as China is concerned, that poses certain difficulties. However, with the further deepening of China's reform and opening up, the rapid development of its economy and trade, and its enhanced ability to earn foreign exchange from exports, China's capability to undertake appropriate obligations in the multilateral trade system will also rapidly increase, and the effects that this will engender will grow increasingly significant.

## POPULATION

### Procedures for Fourth National Census

OW0411070489 Beijing XINHUA Domestic Service in Chinese 1518 GMT 2 Nov 89

[Local Broadcast News Service]

[Text] Beijing, 2 Nov (XINHUA)—Procedures for the Fourth National Census

**Article 1.** The fourth national census is scheduled to be taken in 1990 in order to accurately determine the changes in the size, distribution, structure, and quality of the population since the third national census, and to provide reliable data for formulating national economic and social development strategies and plans in a scientific manner, making comprehensive arrangements for the people's material and cultural life, and reviewing the progress in implementing the population policy.

**Article 2.** People to be included in the census are those of the PRC nationality (referring to natural persons, the same below) living permanently in the country.

**Article 3.** The census will be taken under the supervision of the State Council and local people's governments at different levels.

The State Council; provincial, autonomous regional, and municipal people's governments; people's governments of cities with districts and autonomous prefectures and prefectural administrative offices; and people's governments of counties, autonomous counties, districts

without districts, and districts directly under city governments should set up census leading groups and offices; township, town, and street offices should set up census offices; and villagers' and residents' committees should set up census groups to take charge of the supervision, organization, and actual implementation of the census.

**Article 4.** It is necessary to mobilize all forces of society to take part in the census.

People's governments at different levels should ensure a thorough publicity of the census, using all kinds of propaganda tools and measures to publicize the great importance of census, encouraging the masses to actively take part in the census, and ensuring that the census is known to every household and individual.

**Article 5.** The census will be taken by general survey zones and survey subzones.

Each general survey zone covers the area under the jurisdiction of a villagers' committee in rural areas, or a residents' committee in urban areas.

Each general survey zone will be divided up into several survey subzones according to the work load suitable for each surveyor.

**Article 6.** Each household will be registered as one unit. Households include family and collective households.

A family household consists of people who are members of the same family and are living together at the same place. A single person who lives alone is also considered a family household.

A collective household consists of people who are not family members but are living collectively together in the dormitory or other residences provided by the same unit. People living together in the branch dormitory of the same unit, or in its dormitory in another locality, are considered another collective household.

**Article 7.** The census will be taken in accordance with the principle of registering at permanent residence. Every person should register at the place where he or she takes up permanent residence, and each individual can register only once.

People who should register at the county or city of their domicile include the following:

- (1) those who have lived permanently and completed household registration in the county or city;
- (2) those who have lived in the county or city for at least a year and have registered in another locality;
- (3) those who have lived in the county or city for less than a year and have left the place with permanent household registration for more than a year;

(4) those who have lived permanently in the county or city but are awaiting for a ruling on their residence status at the time the census is taken; and

(5) those who are former residents of the county or city but are now studying or working abroad without a permanent residence in China at the time of census.

People who have left the city or county, where they registered as permanent residents, for more than a year should not be included in the permanent population of the place where they now live; only their number should be taken.

In order to avoid repeats and omissions, the census offices of the township, town, or street where people mentioned in Section (3) of paragraph two of this article should notify, in written statements before 31 May 1990, the census groups of the villagers' or residents' committee where they live permanently that such people be exempted from the census.

**Article 8.** There are 21 items to be filled in the census form. Each individual shall complete 15 items. They are: (1) name; (2) relationship to the head of household; (3) sex; (4) age; (5) ethnic group; (6) condition and nature of household; (7) condition of permanent residence on 1 July 1985; (8) reason for moving to current residence; (9) education; (10) trade, if employed; (11) occupation, if employed; (12) condition of employed; (13) marital status; (14) for women only: number of childbirths, both living and deceased; (15) for women only: childbirths since 1 January 1989.

Each house shall complete six items. They are: (1) serial number of the household; (2) household distinction [family or collective—FBIS]; (3) number of household members; (4) number of births per household; (5) number of deceased per household; (6) number of household members who have left the county or city for more than a year.

**Article 9.** Households with members deceased between 1 January 1989 and 30 June 1990 should also complete a "Deceased Population Registration Form," which will include 9 items: namely, serial number of the household, name, sex, ethnic group, date of birth, date of death, education, marital status at the time of death, and main occupation of the deceased while still living.

**Article 10.** The standard time for the registration of the census will be 0000 1 July 1990.

People who die between 0000 1 July 1990 and the time of census registration should be registered in the census, and it shall not be mandatory for the "deceased population registration form" to be filled out. Births during this period shall not be included in census registration. People who move to another residence during this period should register at their original place of census registration.

**Article 11.** Prior to the census, census offices at all levels should check household registration according to the "Regulation for Household Registration in the People's Republic of China" and other relevant state provisions for managing household registration. After checking household registration, according to the rules for dividing up census zones, the census organizations should clearly delineate the geographical boundary and house numbers for each census zone, and on the basis of verified household registration information, compile a master copy of the names of the heads of households for each census zone to be used as a reference during the census registration. While checking household registration, it is necessary to guard against omission of people who have registered in another county or city but have resided in the local county or city for more than a year.

**Article 12.** The census registration work will be carried out by census staff members, with guidance and inspection by census instructors and assistance from grassroots cadres and activists among the masses.

Census staff members and census instructors will be chosen and transferred from among cadres of county and city people's governments and party and government organizations at various levels, staff members of enterprises and institutions, primary and middle school teachers, and retired cadres. Only those with political integrity, junior middle school education or above, and good health should be chosen and transferred; they should be able to win the people's trust and should perform their duty conscientiously and competently. The aforementioned personnel shall receive certificates from the census office after undergoing a brief training and after passing examinations. The census staff members and instructors should not be transferred to perform other jobs before the completion of the census tasks.

**Article 13.** The main method to be used for census registration is for census staff members to visit each household to make inquiries and fill out the forms on the spot. Where necessary, registration may be carried out by stations set up in general survey zones. The census staff members should ask each household and each individual questions according to the items listed on the census forms and fill out the items one by one. Those who answer the questions should give information strictly according to the facts. It is imperative to make sure that there is no repetition and omission of information, and that all information given is accurate.

After filling out the form for a household, the census staff member should read the information put down on the form to those who provided the information so that the information can be checked and verified.

Census staff members must keep secret the information given by all households and are not allowed to provide or divulge the information to any unit or individual other than the census organ.

Census work on the collective households or individual families residing within various organs, groups, enterprises,

and institutions should be carried out by the units concerned under the unified planning of the local census organ.

The work of census registration will commence on 1 July 1990 and end before 10 July.

**Article 14.** Census of active service members, civilian cadres, and staff members and workers within the authorized personnel organization of the Chinese People's Liberation Army [PLA], as well as retirees under PLA management should be carried out by leading organs of the PLA units concerned.

As for staff members, workers, and their dependents, as well as nurses who do not belong to an authorized PLA personnel organization but are working in units within one, the PLA organ concerned should be responsible for their census, and their census forms should be forwarded to the census organ designated by the local people's government if they are residing within PLA barracks. The local census group should be responsible for the census of the above-mentioned personnel if they are not residing in PLA barracks.

As for service members not on active duty, civilian cadres, and staff members and workers within the authorized PLA personnel organization who are residing in such units as factories, dependent schools, and kindergartens that belong to the PLA but are not within its authorized organization, their census should be carried out by the units concerned, and their census form should be forwarded to the census group designated by the local people's government. Census of the above-mentioned personnel not residing in the above-mentioned units should be carried out by the local census organ.

**Article 15.** Census of the various units of Chinese People's Armed Police Forces, such as internal security [NEI WEI 0355 5898] (including the Xinjiang Construction Corps Command of the Armed Police), frontier defense, fire fighting, public security, water and electric power, traffic, gold, and forest police units, should be carried out by the public security bureaus of the counties or cities where they are stationed, and their census forms should be forwarded to the county or city census offices.

**Article 16.** As for embassy and consulate personnel, personnel of other units stationed abroad, as well as experts, staff members, workers, laborers, students (including those studying abroad at government and self expenses), trainees, and those furthering their studies who have been sent to foreign countries, their census information should be provided by the families or collective households to which they belonged before going abroad.

**Article 17.** Census of those subject to reform and reeducation through labor according to law should be carried out by the local public security organs and the judicial organs in charge of such reform and reeducation. Their census forms should be forwarded to the county or city census offices concerned.

**Article 18.** After the completion of census registration, census instructors should organize census staff members to conduct a comprehensive reexamination according to the established procedure. If any mistake is found, it should be corrected after verification.

The reexamination work should be completed before 15 July 1990.

**Article 19.** Township, town, and street census offices should set up census registration quality inspection groups to undertake the responsibility of inspecting and controlling the quality of the registration work in the general survey zones under their jurisdiction.

**Article 20.** After the completion of census and reexamination, census offices in various localities should take samples in accordance with the established sampling procedure and check the samples. Then, they should make consolidated reports and forward the reports to higher authorities so that an appraisal can be made of the quality of the work of census registration nationwide.

Sampling personnel should not conduct sample checks in the general survey zones where they have taken part in the census work.

Sample checks on work quality should be completed before the end of July 1990.

**Article 21.** Census organs should, first of all, manually consolidate the main data of the census. There are six levels of data-consolidating units:

The census groups of residents' and villagers' committees are the first-level units, which will be responsible for completing and submitting to the higher authorities the consolidated lists before the end of July 1990.

The census offices under the township [xiang 6763], town [zhen 6966] and neighborhood offices are the second-level units which are responsible for completing and submitting to higher level the consolidated lists before 10 August 1990.

The offices of the census leading groups under the people's governments of counties, cities without subordinate districts, and districts under cities are third-level units which are responsible for completing and submitting to higher level the consolidated lists before 20 August 1990.

The offices of the census leading groups under the people's governments of cities with subordinate districts and autonomous prefectures and under prefectural commissioner's offices are fourth-level units which are responsible for completing and submitting to higher level the consolidated lists before the end of August 1990.

The offices of the census leading groups under the provincial, autonomous regional and municipal people's governments are fifth-level units which are responsible for completing and submitting to higher level the consolidated lists before 10 September 1990.

The office of the census leading group under the State Council is the sixth-level unit which is responsible for completing and submitting to the State Council the consolidated census data before the end of September 1990, and then issuing a communique on the census data after the data are examined by the State Council.

**Article 22.** The census forms and various consolidated lists shall be designed in a unified way by the office of the census leading group under the State Council, and shall be printed and issued by the offices of the census leading groups under provincial, autonomous regional and municipal people's governments. Forms used in minority nationality regions and the instructions on how to fill them should be bilingual to include the commonly used written languages of local nationalities.

**Article 23.** After the census forms are rechecked and manually consolidated, census staff members shall code all the items in the forms of their survey subzones first. Then, the forms shall be gathered at the county level office and be further coded by encoders working under the guidance of encoding instructors in accordance with unified rules and standards. The county-level coding work shall be completed before the end of October 1990. The coding work should be comprehensively rechecked and verified before the codes are permanently recorded. After the coding work is completed, its quality should be spot checked in accordance with established procedures.

**Article 24.** The census forms should be bound in book form according to survey subzones. The deceased population registration forms should be bound in book form according to general survey zones. After the data are recorded, all the census data shall be transmitted to and saved in the census data banks of provinces, autonomous regions and municipalities.

During shipment, the census forms should be properly packed and escorted by special persons to prevent damage. The shipping units should turn the shipment over to the receiving units in accordance with established procedures.

**Article 25.** The population of Taiwan, Penghu, Jinmen and Mazu regions shall be computed in accordance with the data published by the Taiwan authorities. The population of Hong Kong and Macao regions shall be computed in accordance with the data published by the Hong Kong and Macao authorities.

**Article 26.** The electronic computer census data processing work shall be done in the following three steps:

(1) A sampling consolidating work shall be done first. A certain amount of data should be selected as samples in accordance with sampling rules and be consolidated first. The office of the census leading group under the State Council shall submit the results of the sample consolidation to the State Council before the end of May 1991.

(2) An overall consolidation shall be made. The offices of the census leading groups of provinces, autonomous

regions and municipalities shall submit the results of all the consolidations to the office of the census leading group of the State Council before the end of June 1992. The office of the census leading group of the State Council shall submit the consolidated national census data to the State Council before the end of September 1992, and then publish them after they are examined by the State Council.

(3) A census data bank shall be established.

**Article 27.** The consolidated national census data shall be compiled and printed by the office of the census leading group of the State Council, while the consolidated provincial, autonomous regional and municipal census data shall be compiled and printed by the offices of the census leading groups of the respective provincial, autonomous regional and municipal people's governments. The offices of the census leading groups under the State Council and the various provincial, regional, and municipal people's governments should appraise, analyze, and study the consolidated data obtained through the census, compile census reports, and distribute them respectively to the State Council and the various provincial, regional, and municipal people's governments.

**Article 29.** Under the principle of ensuring high quality in fulfilling the census work and, at the same time, practicing strict economy, both the central and local financial departments should share the expenses for the census, but with the local financial departments as the main source of funds. Paper and packing materials required for the census work should be included in the material production and distribution plans of the planning, supply, and other related departments at various levels. They should be regarded as items to be used for special purposes, and their supply should be guaranteed.

**Article 30.** Census leading groups and offices of the people's governments at all levels must seriously implement the system of asking instructions and submitting reports. After the completion of the census work, census leading groups of the people's governments at and above the county and city level should seriously sum up their experiences and report them to the higher authorities.

**Article 31.** Following this census, departments concerned should further strengthen the population statistical work. Statistical departments should improve and enhance the work of the census and the sample check of population, and do a good job in organizing and coordinating the population statistical work among the departments concerned and in supervising and publishing population-related data. Public security departments should further improve and strengthen resident registration organs and their routine work of resident registration and administration. Townships (which have no public security stations) and villages in rural areas should assign full- or part-time personnel to take care of the work of resident registration and population statistics at the township and village levels. Public security departments in various

localities should gradually establish computerized systems for the handling of population information. Family planning departments should do an improved job of surveys and statistics regarding new births and birth control.

**Article 32.** The census procedure may be modified in the Tibet Autonomous Region and other areas where minority nationalities live in compact communities and where special conditions exist. For this purpose, specific procedures may be proposed by the Tibet Regional People's Government and the people's governments of the provinces and autonomous regions in which the minority-inhabited areas are located. The proposed procedures should be submitted to the census leading group of the State Council for the record.

**Article 33.** The form for the fourth national census should be designed and issued by the census leading group of the State Council.

## TRANSPORTATION

### Dalian Harbor Handling Capacity 'Increased'

OW0711133889 Beijing XINHUA in English  
1117 GMT 7 Nov 89

[Text] Dalian, November 7 (XINHUA)—Dalian Harbor, at the south tip of Liaodong Peninsula, is expected to be able to handle 52 million tons of cargo a year by 1990, 68 million tons by 1995 and more than 80 million tons by 2000.

Lei Youkun, an official at the Dalian Harbor Administration, said that since the implementation of the open policy ten years ago, Dalian Harbor has completed 68 improvement projects and handling capacity has increased by 16 million tons.

Last year, the harbor handled 48,526,000 tons of cargo and 4,120,000 passengers, representing increases of 17.8 times and 11.5 times respectively the figures of the early 1950s. The volume of foreign trade reached 34,503,000 tons, 31.5 times that of the early 1950's.

Lei said the harbor has imported new equipment in recent years, and at the same time spent several million yuan on the erection of computer centers for the scientific management of the harbor.

The harbor has established trade relations with 140 countries and regions. Scheduled sailings and international routes were opened to North and West European countries and to the United States, Canada, Japan and other countries.

The hinterland of Dalian Harbor is the three provinces in northeast China and Inner Mongolia, where there are five bases for iron and steel, energy, machinery, forestry and grain.

Lei said that during the Seventh Five-Year Plan (1986-1990), Dalian Harbor spent 1,400 million yuan (about \$380 million) on construction and improvements.

Of that amount, 1,284 million yuan (about \$344 million) was spent mainly on the development of the Dayaowan New Harbor area. There a comprehensive harbor with four areas for containerization, iron and steel, sundry goods and bulk cargoes is expected to be completed by 2000.

Dalian Harbor is expected become a free port and has started to make provision for the storage and transport of bonded goods.

### **Flight Service From Dalian to Xiamen Opens**

*SK0811043389 Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 7 Nov 89*

[Text] The air route from Dalian to Xiamen officially opened today. There is one flight service a week from Dalian to Xiamen, which takes 2 hours and 40 minutes. Opening of this route has built a bridge in the air for the political, economic, and cultural exchanges between the two important port cities. Ceremonies were held respectively in Dalian and Xiamen today to mark the opening of the flight service.

### **Hainan To Build New Expressway**

*OW1511000889 Beijing XINHUA in English 1508 GMT 14 Nov 89*

[Text] Haikou, November 14 (XINHUA)—The State Council, China's highest governing body, recently approved the construction of an express highway in the eastern part of Hainan Province.

The highway will extend 272 km and links Fucheng near Haikou City in the counties of Dingan, Qionghai, Wanning and Lingshui and Sanya City. It will be designed to accommodate traffic travelling at up to 100 kph.

According to the HAINAN DAILY, the highway will cost 930 million yuan (about \$251 million), and of this, 700 million Japanese yen will be invested by the Japanese Overseas Economic Cooperation Fund and 300 million yuan by the Chinese Ministry of Communications.

The highway will be 10.5 m wide and is scheduled to be completed in 1992. In future its width will be doubled.

The first phase of construction on the Fucheng - Dingan section started recently.

### **New Passenger Terminal Begins Operation in Zhejiang**

*OW2111122989 Beijing XINHUA in English 0857 GMT 21 Nov 89*

[Text] Ningbo, November 21 (XINHUA)—A new passenger terminal began operation Monday in the economic and technical development zone of Ningbo, a Zhejiang Province coastal city open to foreign investment.

Since its establishment in 1984, this technology-intensive development zone has invested 200 million yuan in infrastructure construction.

The zone's 270,000 square meters of facilities provide attractive conditions for overseas investors.

The zone has ties with more than 30 countries and regions. Contracts for 82 cooperative projects have already been signed.

A local official said the new passenger terminal will facilitate Ningbo's exchanges with the outside world.

## **AGRICULTURE**

### **Shanxi Issues Regulations on Rural Contracts**

*90OH0144A Taiyuan SHANXI NONGMIN in Chinese 12 Oct 89 p 2 Shanxi Province Rural Cooperative Economy Contract Agreement*

Administrative Regulations (Trial) (Passed by the 12th Meeting of the Seventh Shanxi Provincial People's Congress Standing Committee on 22 September 1989)

[Text] **Chapter 1. General Regulations Article 1.** In accordance with pertinent portions of the "General Provisions of the Civil Code of the People's Republic of China," and the "Economic Agreements Code of the People's Republic of China" in conjunction with realities in Shanxi Province, these regulations have been drawn up in order to improve the administration of contractual agreements in the rural cooperative economy, to safeguard the legal rights and interests of parties to agreements and the socioeconomic order, to improve economic benefits, to stabilize the output-linked contract responsibility system, to develop the collective economy, and to take the common road to becoming prosperous.

**Article 2.** These regulations apply to the administration of contract agreements regarding land, orchards, the forestry, animal husbandry, and fishing industries, water conservancy projects, farm machinery, agricultural electrical facilities, and village-operated enterprises in the rural cooperative economic organizations of this province.

**Article 3.** The concluding of rural cooperative economy contract agreements (hereinafter abbreviated to contract agreements) must be in accordance with laws and rules and regulations, and be consistent with national policies and plans. Such agreements may not damage the public interests of the state, collectives, and society, or the legal rights and interests of others.

**Article 4.** The concluding of contract agreements must uphold the principles of equality and voluntary participation, and reaching unanimity through consultation, using democratic and open methods, and be in written form.

**Article 5.** Rural economy administration and management organs at all levels of the people's government are responsible for the administration of contract agreements. Their principle duties are as follows:

- (1) To publicize the laws, and the rules and regulations for carrying out relevant contract agreements;
- (2) To provide guidance in concluding contract agreements;
- (3) To notarize contract agreements;
- (4) To check and supervise contract agreement fulfillment;
- (5) To mediate and arbitrate contract agreement disputes;
- (6) To provide contract agreement consultation services.

**Article 6.** After contracting operation of the means of production owned by the village residents' cooperative economic organization and rural collectives, their ownership rights and characteristics are to remain unchanged, the contracting party enjoying only the operating rights provided in the agreement.

## **Chapter 2. Letting Contracts and Contracting**

**Article 7.** The letting of contracts for resources and assets owned by rural cooperative economic organizations and village collectives, as well as for national resources for which they enjoy the right to use according to law, the existing production and business property, and production and business property to be newly developed is to be done by village and cooperative economic organizations. In villages that have not yet established a collective economy organization, contracts are to be let by village residents' committees or independently accounting village citizens' groups.

The "village and commune cooperative economic organizations," and village residents' committees" mentioned in the preceding paragraphs are collectively termed "village and commune organizations" hereinafter.

**Article 8.** Property for which village and commune organizations let contracts is to be contracted by members of village and commune organizations. In places having plentiful resources, it may be contracted to units or individuals outside the village or commune.

**Article 9.** Contracting periods are to be set in accordance with the principles of benefit to the development of production, protection of natural resources and the ecological balance, and concern for the interests of the state, collectives, and individuals.

**Article 10.** Contracting parties may not do the following:

- (1) Change the uses stipulated in the agreement;
- (2) Sell or lease contracted resources and fixed assets;
- (3) Dig up the soil to make bricks, excavate sand or gravel, quarry rocks, mine, construct houses or graves, or

put up nonagricultural facilities that are unrelated to the purposes for which cultivated land was contracted.

(4) Recklessly fell trees and destroy orchards, forests, pasturelands, or water surfaces.

(5) Conduct activities of a destructive or plundering nature.

**Article 11.** If, during the contracting period, the contracting party improves the land, repairs water conservancy facilities, or adds equipment, when the contracting period is ended, or when the contract is transferred, the party letting the contract is to provide reasonable compensation therefor. If the contracting party causes a decline in soil fertility, damages equipment, or causes the deterioration of resources as a result of failure to make adequate inputs into them or because of plundering activities, he must provide economic indemnification.

**Article 12.** The building of farmland projects, the improvement of ditches, hillsides, flatlands along waterways, and walls, and the planting to trees for afforestation is to be contracted under centralized planning by the village or commune organization.

**Article 13.** When the period of the contract has expired, other conditions being equal, the original contracting party should be given priority for further contracting.

**Article 14.** The contracting party must possess the technical skills and the administrative ability needed for the matter contracted. Units and individuals that do not possess requisite contracting ability and requirements may not receive contracts.

**Article 15.** Contract agreements must provide explicitly as follows:

- (1) The name of the particulars contracted, the amount, the quality, and other main economic and technical criteria;
- (2) The time when the contract agreement begins and ends;
- (3) The production and operating conditions, and the services that the contracting party is to provide, as well as the compensation and bonuses to be given the contracting party for investments made such as the addition of equipment or facilities.
- (4) The investment that the contracting party is to guarantee, and the production management, technical management and operating goals, as well as production safety and environmental protection requirements during the period of the contract; repair and maintenance of, and in-service rate quality maintenance requirements for farmland water conservancy facilities, houses and buildings, mechanical equipment, and transportation means; and provisions for economic indemnification and punishment for damage to cultivated land and for conducting other activities of a destructive or plundering nature.



(5) The fees, or the amount and quality of products that the contracting party is to pay, as well as the depreciation fees to be withheld, and the tax payments and other indebtedness for which the contracting party is to be responsible.

(6) Responsibility for violation of the contract, risk responsibility, and methods of enforcement.

(7) Property transfer and final settlement methods at the end of the contract agreement.

(8) Other matters to which both parties have agreed.

**Article 16.** When a contract is signed, members of the local village or commune organization, or their representatives are to conduct a democratic assessment of the contracting letting particulars, set equitable economic and technical standards, and let the contract openly. Additionally, they are to strictly abide by signing procedures.

**Article 17.** Once a contract agreement has been signed, it is to be sent to the township or town rural economic administration and management organization for examination and notarization.

Once a contract has been signed and notarized according to law, it has the effect of law. Both parties must strictly carry it out, neither party unauthorizedly changing or renouncing it.

**Article 18.** The economic returns that the contracting party gains through hard work and the application of science and technology are protected by the law.

**Article 19.** Building of a contract agreement custodial system. Three copies of the contract agreement are to be made, one for the party letting the contract, one for the contracting party, and one for the agreement notarizing unit. Township, towns, villages, and communes are to establish and perfect contract agreement files and a file management system.

**Article 20.** Agreements to which any of the following circumstances apply are invalid:

(1) Violations of the laws, of rules and regulations, and government policies and plans; violations and damage to the common interests of the state, collective, and society, and the legal rights and interests of other persons;

(2) Violations of democratic and open methods;

(3) Signing of agreements through resort to improper methods such as deception, coercion, or influence;

(4) The party letting the contract does not have ownership rights for the property being let out on contract.

**Article 21.** When any of the following situations occur, agreements may be changed or renounced:

(1) When both parties to the agreement agree, and when no damage is done to the public interests of the state, the collective, or society, or to the legal rights and interests of others;

(2) For irresistible or unpreventable external causes that make it impossible to carry out the contract agreement;

(3) When the contracting party conducts activities of a destructive or plundering nature that the party letting the contract has tried in vain to halt;

(4) When the contracting party loses the ability to fulfill the contract during the contracting period;

(5) When one party requests abrogation of the contract because the other party has violated it;

(6) When the state requisitions or revises the use of natural resources such as contracted land.

Ordinary rise and fall of product prices may not be used as a basis for changing agreements. When produce prices rise and fall substantially, resulting in marked distribution inequities, contract standards may be suitably adjusted on the basis of the state published price index and local realities.

**Article 22.** When one party to an agreement asks that a contract agreement be changed or rescinded, he should first notify the other party. A written agreement reached following discussions becomes effective only after examination and approval by the township or town rural economic administration and management organization.

When a change or rescission of an agreement causes damage to the other party, the responsible party is to bear responsibility for payment of an indemnity unless such responsibility is reduced or annulled according to law.

**Article 23.** The contracting party may not subcontract contracted property for unearned gains.

Subcontracting or transfer of contracted property must be conducted under aegis of the party originally letting the contract, and reported as a matter of record to the township or town rural economic administration and management organization.

#### **Chapter 4. Violations of Responsibility, and Mediation and Arbitration**

**Article 24.** When the parties concerned are at fault for inability to carry out or fully carry out contract agreements, the party at fault is to bear responsibility. When both parties are at fault, each party is to be individually responsible.

**Article 25.** When the party letting the contract causes losses for the contracting party as a result of his or her failure to discharge the duties specified in the contract agreement, he is to pay indemnification.

**Article 26.** When illegal interference on the part of another party or individual makes it impossible to carry

out, or completely carry out, the contract agreement, all the economic losses caused are to be indemnified by the interfering unit or individual, and the directly responsible party is to be fined in accordance with the severity of the situation.

**Article 27.** When the contracting party fails to use contract land properly, or when he removes it from cultivation, or damages it by using it for unintended purposes, when contracted production equipment and the use of machinery or implements, or poor management cause damage or losses, or when contracted forests, water services, or pasturelands are damaged as a result of mismanagement, the damage is to be repaired during the contract period, and economic losses indemnified.

**Article 28.** When the contracting party fails to discharge his fixed procurement responsibilities to the state, fails to pay the contract fees or products, the taxes owed the state, or other withholdings, the party letting the contract has the right, in accordance with contract provisions, to demand that the contracting party provide reimbursement or indemnification for economic losses, or he may recover the property let on contract.

**Article 29.** The contracting party is to honor the contract agreement strictly in accordance with provisions as to its duration, methods, and funding. He may not extend the duration of the contract, change methods, or reduce or annul requirements at will; otherwise, he is to bear economic responsibility.

**Article 30.** When disputes arise in the course of carrying out the contract agreement, both parties concerned should attempt to solve them through consultation. When consultation fails, they may request mediation by the township or town rural economic administration and management organization. When mediation fails, the dispute should be submitted to arbitration for handling according to law.

In the mediation or arbitration of disputes, the facts should be clear, the nature of the dispute should be accurate, and the dispute should be handled fairly and equitably in order to safeguard the legal rights and interests of the parties concerned.

**Article 31.** When the parties concerned refuse to submit a dispute to arbitration, request for review by a primary level rural economy administration and management organization may be requested within 15 days following receipt of the arbitration order. When the review ruling is rejected, suit may be filed in a people's court within 15 days following receipt of the review ruling.

**Article 32.** When disputes arise about rural farming industry or breeding industry contract agreements, they should be handled promptly. When necessary, a ruling may be issued to resume production first pending resolution of the dispute.

**Article 33.** Contract agreements signed before promulgation of this regulation are to be carried out in accordance

with the provisions of the original contract agreement. Should disputes occur, they may be dealt with according to the provisions of this regulation in conjunction with local realities.

#### Chapter 5. Appendix

**Article 34.** Contract agreement management organizations may collect an appropriate management fees in accordance with pertinent state regulations for handling notarizations, and for mediating and arbitrating contract disputes.

**Article 35.** Any problems that may arise in the actual application of this regulation are to be resolved by the provincial department of agriculture and animal husbandry.

**Article 36.** This regulation is to take effect from the date of publication.

#### Qinghai Livestock Production

40060016C Xining QINGHAI RIBAO in Chinese  
25 Oct 89 p 1

[Summary] From January to September, Qinghai Province removed 405,200 porkers and 814,900 lambs from stock, increases of 23.9 percent and 2.3 percent over the same period in 1988; gross output of pork, beef, and lamb was 48,700 tons, an increase of 255 tons over the same period in 1988. By the end of September, the number of draught animals and sheep in stock totaled 23,440,200, a 12.1 percent increase over the same period in 1988.

#### Hunan Winter Crop Area

40060016B Changsha HUNAN RIBAO in Chinese  
26 Oct 89 p 2

[Summary] The planned winter crop area for Hunan Province is 8 million mu of grain, and gross output is expected to reach 600 million kilograms; the rape area will be 10 million mu, and rapeseed output is expected to reach 550,000 tons; the green manure area will be 17 million mu; and the vegetable and feed area will be 5 million mu.

#### Gansu, Ningxia Reap Bumper Grain Harvest

OW1311040989 Beijing Domestic Service in Mandarin  
1030 GMT 10 Nov 89

[By reporter Liao Youliang from the "National Hookup" program]

[Text] Gansu Province has reaped a bumper grain harvest for 7 years in a row as a result of the implementation of a special agricultural policy.

Previously, grain shortages were a major problem affecting Gansu's economic development and social stability. In the past, the province had to spend some 100 million yuan buying more than 600 million kilograms of grain from other provinces each year. When the present

provincial leaders took office, they put grain production high on their work agenda with the top party and government leaders personally grasping agriculture and grain production. This work started from improvement in the basic conditions for production in the province. Up to now, nearly 300 big and small reservoirs have been built, and water channels totaling some 30,000 kilometers have been dug. With these facilities, the acreage of cropland which can be irrigated has been expanded to more than 13 million mu. In the meantime, the commercial grain production center on the western bank of the Huang He was designated the first area to implement the contract system in the application of science and technology to agriculture. Now, this system has been gradually spread to other areas. In addition, a large number of scientific and technical workers have been dispatched each year to rural areas in various parts of the province. Within a few years, the scope of science and technology contracts have expanded to cover more than 30 different items of work. This has had a marked effect on the steady development of grain production in Gansu Province.

Another important factor contributing to Gansu's successive bumper grain harvests is that the provincial party committee and Government refrain from being blindly optimistic in the face of good harvests. A few years ago, following the improvement of the state of grain production, the province launched a campaign to create fields which could yield 1 metric ton of grain per mu. Then, a strategy of developing the west to make up deficiencies in the east was put into effect in view of the favorable water, soil, sunlight, and climatic conditions in areas west of the Huang He. During the past few years, agricultural investment in areas west of the Huang He was raised by 10 million yuan annually. This year has witnessed an increase of 60 million yuan in agricultural investment. The idea is to use big input to bring about big output. The total grain output in Gansu Province this year is estimated at a level exceeding 6.2 billion kilograms.

According to another report, Ningxia also scored a bumper harvest of grain this year, with a total output of 1,765 million kilograms, hitting a record high.

### Scientists Find Waste Plastic Sheeting Harms Arable Land

OW1311075889 Beijing XINHUA in English  
0638 GMT 13 Nov 89

[Text] Beijing, November 13 (XINHUA)—The wide use of plastic sheeting in agriculture has greatly promoted farm yields, but scientists have found that waste plastic sheeting left in the fields harm arable land, according to a Beijing-based newspaper.

In the past three years over 10,000 tons of waste plastic sheeting used for growing crops has become mixed with the soil in Heilongjiang Province, northeast China.

The use of plastic sheeting started in the province in 1979. This year more than 100,000 ha of fields utilized this technique; in 1987 it was used on as much as 200,000 ha.

However, farmers did not clean up the waste sheeting properly, and it became mixed with the soil in many areas, hindering the permeation of water and the extending of plant roots. On average this problem has caused the output of grain to drop by 15 percent, according to the paper.

### Dai Moan Gives Speech on Agricultural Production

SK1911024989 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 15 Nov 89

[Text] At the provincial work conference on popularization of agrotechniques held this morning, Vice Governor Dai Moan revealed that in the next 5 years, the provincial authorities will allocate 1 billion yuan to support agricultural production and will strive to make the grain output reach 20 billion kg by 1992. During the last decade, the growth rate of our province's grain output was evidently lower than that of the whole country. During this period, our province's grain consumption increased at an annual progressive rate of 3.4 percent. Therefore, it is really essential to increase grain production.

Dai Moan pointed out: Without stable agriculture, there would not be a stable economy. Likewise, without a stable economy, there would not be a stable society and popular feeling.

Dai Moan said: What should the Heilongjiang Provincial party committee depend on in order to make the total grain output reach 2 billion kg within the next 2 to 3 years? It should depend on the rational use of the existing science and technology. Therefore, next year, we should form the following mechanisms in the whole province:

The Heilong-cup emulation drive mechanism, which concentrates on farmland capital construction; the fertilizer cultivation emulation mechanism; the mechanism of updating and upgrading large farm machinery and implements.

Dai Moan said: The provincial authorities have decided to allocate 10 million yuan and add such sum to the local supporting funds to update and upgrade large caterpillar tractors. The allocation of 11.25 million yuan—the original financial subsidies for maintaining and repairing large tractors—will remain unchanged.

### Provinces Step Up Investment in Farmland Development

HK1711070289 Beijing CHINA DAILY in English  
17 Nov 89 p 1

[By staff reporter Wang Dongtai]

[Text] In a nationwide campaign to increase agricultural production, all provincial governments in China are stepping up investment in farmland development projects, according to officials from the Ministry of Agriculture.

In Jilin Province, county governments have spent 7 million yuan on developing aquatic farming.

Liaoning Province is spending 5.6 million yuan in incentives and support for irrigation projects.

And in Heilongjiang Province, there is a Heilong Cup competition for agricultural infrastructure development.

The city of Qingdao, in Shandong Province, plans to devote three years to improving 60,000 hectares of low-yield farmland. The program is aimed at increasing grain output by 50 million kilograms. This year, the city government invested 3 million yuan for agricultural development.

In Hunan, the provincial government adopted several measures to increase investment in agriculture. In addition to what had been allocated in the budget, 10 million yuan in provincial funds will be set aside for agricultural development.

The provincial government has also decided that the increase in the tax collected from rural enterprises will be used for grain production. Another 7 million yuan will be used for technological improvements.

Hunan will also use another 12.5 million yuan, about 50 percent of the tax collected on native agricultural and forestry products, on grain production.

And funding will increase as well for construction in the fields of agriculture, forestry and water conservancy. Finally, at least 15 million yuan a year will be spent exclusively for developing agriculture in the southern part of the province.

The government of the Inner Mongolia Autonomous Region has decided to spend at least 50 million yuan on agriculture in addition to the amount now specified in its

budget. This extra investment includes 30 million yuan out of the region's extra-budgetary funds, 10 million yuan from taxes collected for the use of farmland, 6 million yuan from taxes collected from special products and 5 million yuan from taxes collected from rural enterprises.

Jiangxi Province is collecting money for the construction of a large fertilizer factory and Shaanxi Province is planning to use 60 million yuan on agricultural construction projects.

At present, an official from the Ministry of Agriculture said, individual farmers and rural collectives are the main investors in agricultural production. In the past several years, he said, governments have not paid enough attention to agricultural investment.

It is estimated that by the end of the century, individual farmers and rural collectives will still provide about two-thirds of the total funds needed for agricultural production. The State's investment and bank loans will constitute about one-third of the agricultural investment.

The State will mainly invest in such major projects as irrigation, promotion of advanced technologies, protection of crops and regional development, the official said.

#### **Jiangxi Peasant Income**

40060016D Beijing JINGJI CANKAO in Chinese  
27 Nov 89 p 1

[Summary] From the first to third quarter of 1989, average cash income of farmers in Jiangxi Province was 405.72 yuan, a 27.2 percent increase over the same period in 1988. On average, production expenses for farmers were 137.45 yuan, a 22.95 percent increase over the same period in 1988.

**Industry, Thrift 'Keys' to Progress***HK2510025389 Beijing RENMIN RIBAO in Chinese  
13 Oct p 6*

[Article by He Zhukang (0149 4554 166)]

[Text] In an interview with cadres of army level and above of the martial law forces in Beijing, Comrade Deng Xiaoping pointed out in a speech, "Our worst omission of the past 10 years was in education. I mean political education. We have not said much about plain living and enterprising spirit, about what a country China is and how it is going to turn out. This is our biggest omission." Comrade Jiang Zemin also noted at the mass rally to mark the 40th anniversary of the founding of the People's Republic of China, "In the initial stage of socialism, we must resolutely carry out the basic political lines laid down by the 13th National Party Congress: Lead and unite the people of all nationalities across the country to build China into a prosperous, powerful, democratic, civilized, and modern socialist country by taking economic construction as the central task, and by adhering to the four cardinal principles, reform and opening up to the outside world, the principle of self-reliance, and the style of plain living and hard struggle." These two speeches are very important. At present in particular, vigorously carrying forward the pioneering spirit of plain living and hard struggle is of significant importance to carrying out the spirit of the 4th Plenary Session of the 13th CPC Central Committee, overcoming the trend that has existed for some time of the party and government to break away from the masses, improving close ties to the broad masses, and uniting the people to continually march ahead.

**I. Plain Living and Hard Struggle, and Pioneering a Cause Industriously and Thriftily Are Important Guiding Principles, Which Should Be Upheld for a Long Time**

The Chinese nation is world famous for its diligence and thrift. The Chinese Communist Party, since its inception, has considered as its duty leading the Chinese people in creating a prosperous and happy life through developing the pioneering spirit of plain living and hard struggle, and also regarded as its exclusive purpose serving the people, heart and soul. In the protracted revolutionary struggle, Chinese Communists consistently carried forward the pioneering spirit of plain living and hard struggle, and made the spirit the fine tradition of our party and a magic weapon for defeating the enemy and overcoming difficulties. The "Long March spirit" and "Yanan spirit" encouraged us to win a victory in the new democratic revolution. When the Chinese revolution was about to score a nationwide victory, a turn in our history, Comrade Mao Zedong exhorted the whole party, "With victory, certain moods may grow within the party—arrogance, inertia, unwillingness to make progress, love of pleasure, and distaste for continued hard living. The comrades must be taught to remain modest, prudent, and free from arrogance and rashness in their style of work." After the founding of the

republic, the whole party continually abided by and carried forward the revolutionary spirit of the war years, and, after 40 years of hard struggle, changed the old China, which was dilapidated, poor, and backward, into an initially prosperous socialist country ranked among other nations in the world. The history of the CPC in leading the Chinese revolution and construction is a history of pioneering a cause through hard struggle.

Since the 3d Plenary Session of the 11th CPC Central Committee, our party has corrected the "leftist" mistakes committed during the Cultural Revolution, put forward the great task of building a modern socialist country with Chinese characteristics through emancipating the mind and vigorously expanding productive forces, and laid down the general guideline and general policy of reform and opening to the outside world, and the correct policy of building two civilizations simultaneously. Given the situation that economic construction expanded rapidly and popular living standards kept rising, Comrade Deng Xiaoping once again pleaded with the whole party to uphold and develop the pioneering spirit of plain living and hard struggle. But the party's main leading members, however, neglected and relaxed ideological and political work and failed to raise the level of our cultural life so that the spirit of plain living and hard struggle and pioneering a cause through industry and frugality waned. Corrupt bourgeois ideas caused some people, including some party members and cadres, to seek personal pleasure, ease, and comfort, and to develop money worship, resulting in many malpractices and a certain corruption. This not only has prevented the the reform-and-open policies and four-modernization scheme from being carried out smoothly, but also has compromised the prestige of the party and government, attracting scathing criticism from the people. The lesson is extremely profound.

Looking back to the past, we cannot help profoundly reflecting on a series of problems. 1) It is necessary to vigorously develop the spirit of hard struggle and pioneering a cause through diligence and thrift in order to eliminate corruption and maintain the integrity of party and government departments. Comrade Deng Xiaoping pointed out, "After the founding of the republic, we used to talk about pioneering a cause through hard struggle. Later we advocated a high rate of consumption when we became a little better off. As a result, waste ran wild in every field, followed by all kinds of illegal activities and corruption caused by relaxed ideological and political work and an improper legal system." This reminds us that it is necessary to investigate existing cases and bring culprits to justice as a warning to others, but it is more necessary to pay attention to the ideological education in plain living and hard struggle, and the spirit of fathering an undertaking through industry and thrift, so that vast numbers of party members and cadres will firmly acquire the attitude of serving the people heart and soul, and the whole society and party and government departments will consider hard struggle, diligence, and thrift as glorious, and squander and corruption as disgraceful. 2)

The spirit of plain living and hard struggle and founding an undertaking through diligence and thrift is an important foundation for a prosperous Chinese nation. It can be certain that a nation equipped with the spirit of plain living and hard struggle and founding an undertaking through diligence and thrift is bound to be full of vitality, and to have a high-spirited people with a pioneering spirit and a scientific approach. It is difficult to imagine that a nation that is keen only on seeking ease and comfort can have a sound mentality and a bright future. From the revolutionary war years to the times of peaceful construction, whenever the spirit of plain living and hard struggle and pioneering a cause through diligence and thrift was being carried forward, our nation was full of vigor, united as one, and had high morale, and our cause expanded. Otherwise, seeking ease and comfort resulted in being listless, lack of up-and-coming spirit, corruption, and ideological laxity, and this would lead to disunity. This is very dangerous indeed. 3) The style of plain living and hard struggle and fathering an undertaking through diligence and thrift is a requirement for realizing the four modernizations and revitalizing the Chinese nation, and a principle for building socialism. Some people believe that it is "out of tune with the times" and "outdated" to continue to work hard. It is an extremely erroneous idea. Our socialist construction, through hard struggle over the last 40 years, since we introduced reform-and-open policies in particular, has scored achievements that attract worldwide attention, made considerable headway in all fields, and continually built up material forces. But compared with economic development in other countries throughout the world, our economic level still lags behind, and the per capita level, in particular, is among the countries lowest on the list. Ours is a big country with a population of 1.1 billion, and also at the initial stage of socialism, with comparatively low production capability. It is an arduous task to realize the strategic objective for economic development in several decades, that is, to basically change the face of our poor and backward country. Therefore, it is all the more necessary to carry forward the spirit of plain living and hard struggle, and pioneering a cause through diligence and thrift. There is no doubt that socialism should enable people to live a prosperous and happy life, and the people's living standards should be continually improved. But this can be achieved only through hard struggle and labor on the part of the whole people from all walks of life. Comrade Chen Yun was correct in saying, "First we should have enough food, and second we should build our country." But realizing the four modernizations and revitalizing the Chinese nation would remain empty talk without production, construction, and the spirit of founding a cause through hard struggle.

We can arrive at a conclusion from the above. Plain living, hard struggle, and pioneering a cause through diligence and thrift are important guidelines that should be upheld for a long time, and should be carried out in the whole process of the socialist modernization. We should not remember the spirit in time of difficulties,

while throwing it overboard when we become a little better off. Just as Comrade Deng Xiaoping pointed out recently, the more our country develops, the greater attention should we pay to education in the spirit of pioneering a cause through hard struggle and in hard work and plain living. We should pay attention to this work for 60 to 70 years. This thinking should be practiced in all fields from now on, and we should make hard struggle the voluntary action of the masses. It is an important task before us to arouse the whole party and the whole people to vigorously carry forward the style of plain living and hard struggle and the spirit of pioneering a cause through arduous labor, self-reliance, and working with a will to make the country strong.

## **II. It Is Necessary To Acquire a Proletarian World Outlook and Outlook on Life To Carry Forward the Spirit of Plain Living and Hard Struggle, and Pioneering a Cause through Diligence and Thrift**

The spirit of plain living and hard struggle and pioneering a cause through diligence and thrift grows out of the laboring masses' subjective initiative in reforming the objective world. Just as Comrade Mao Zedong put it, "Man should have a little spirit; the proletarian revolutionary spirit grows out of this." The spirit of hard struggle, as a style and an objective search, shows the noble ideas of the proletariat and communists. These ideas are entirely different from those cherished by those people who are keen on personal interests, conceive selfish desire, and strive for a clique's or immediate interests.

In our socialist country, the spirit of plain living and hard struggle and pioneering a cause through diligence and thrift also reflects people's world outlook and outlook on life to a certain degree. As the essence of their outlooks lies in the spirit of braving hardships and waging a heroic struggle to found a common cause and realize their ideals, they are included in the proletarian dialectic materialistic world outlook and communist outlook on life. In recent years, the problem of acquiring a proletarian world outlook and outlook on life was seldom mentioned; it seemed the problem had been solved and it was not necessary to talk about it any more. In fact, the world outlook and outlook on life have been very important matters in the ideological sphere. The outright confrontation between the proletarian and bourgeois world outlooks and outlooks on life is an objective existence, and the distinction must not be obscured. The waning spirit of plain living and hard struggle and pioneering a cause through diligence and thrift in the last few years, in the final analysis, showed the weakening of the proletarian world outlook and outlook on life. It was the failure to resist the corrosive influence of the bourgeois world outlook and outlook on life on the part of some people, including some party members and cadres, that was to blame for corruption in party and government organs and society. Therefore, it is necessary to solve the problem of the world outlook and

outlook on life to carry forward the spirit of plain living and hard struggle and pioneering a cause through diligence and frugality.

In light of the requirements for acquiring the proletarian world outlook and outlook on life, developing the pioneering spirit of plain living and hard work means carrying forward the following spirits:

1. The spirit of selfless devotion. Proceeding in all cases from the people's interests and serving the people heart and soul is the fundamental purpose of our party. To develop the spirit of hard struggle and pioneering a cause through diligence and thrift necessitates, first of all, developing the spirit of selfless devotion, that is, virtues such as selfless, wholehearted devotion to public duty, putting public interests before personal interests, and subjecting personal and partial interests to state and overall interests, and getting rid of unhealthy ideas such as individualism, egotism, money worship, and being intent on nothing but profit, all being advocated by the party at all times. In the current rectification and improvement drive and in implementing the reform-and-open policies, everyone, party members and leading cadres in particular, should take a correct attitude toward the readjustment of various relations between interested parties, conscientiously subordinating personal and partial interests to state and overall interests.

2. The spirit of quietly immersing oneself in solid work. It calls for solid work rather than empty talk when we are engaged in economic construction, or in reform and opening to the outside world. How can we, at present, create a mechanism for socialist commodity economy which is at once geared to China's conditions and able to integrate the planned economy and the market mechanism into an organic whole? This is a brand new problem that calls for the spirit of seeking truth from facts to find a solution. It all calls the more for effort on our part to work, labor, create, and do solid things in a down-to-earth manner rather than indulging ourselves in formalism so that we can find ways to settle various problems.

3. The spirit of building up our country and running all undertakings through thrift and hard work. This is a policy that has been effective for a long time. Currently, our country is still poor and it is necessary for us to be industrious and thrifty, and to oppose extravagance and waste. It is necessary to advocate plain living and hard struggle, brushing aside the exploiting class habit of going in for ostentation and extravagance. Even if we become better off in the future, we should not spend money without restraint. Advocating the style of hard struggle and pioneering a cause through industry and thrift is not contradictory to our effort to improve the people's living standards. The purpose of building up the country through thrift and hard work is to speed up production and enable the country and the people to become prosperous rather than lowering the people's living standards or requiring them to practice asceticism. In light of the above principles, the important things to

do are to implement a strict economic accounting in pursuing construction or production so that we can increase production and practice economy, raise efficiency and productivity, and prevent wasting state property; all organs and institutions must be able to practice diligence and frugality, and oppose ostentation and waste; cadres at all levels must work hard and lead a plain life, be honest in performing their official duties, share the comforts and hardships of the masses. They should also set strict demands on themselves in performing their duties and emulate each other in making contributions while striving to live a life as plain as possible; and so on. It is this pioneering spirit that we must apply to socialist modernization. Therefore, we should not approach the style of hard struggle mechanically. It has different contents and standards for different historical periods and different work posts. In war years, shedding blood, laying down one's life, enduring the torments of hunger could be considered as hard struggle; while, at present, when we are engaging in the four modernizations, perspiring as a result of exerting oneself so hard, resolving key problems in scientific research, and carrying forward the reform and opening to the outside world by removing obstacles also can be understood as hard struggle.

4. The spirit of self-reliance. Relying mainly on our own strength to get jobs in China done well is an important experience in our socialist construction of the last 40 years. We relied on self-reliance to overcome various difficulties in the past, and we still have to rely on it to overcome difficulties in the course of advance. Advocating self-reliance does not mean rejecting opening up to the outside world or excluding lobbying for external support. Only by holding onto self-reliance can the opening up to the outside world enjoy a solid basis and bear fruit; only by keeping the door open and opening the door wider can the self-reliance be provided with more powerful strength.

### **III. Work Hard To Create a Social Environment in Which the Spirit of Hard Struggle and Pioneering a Cause Through Industry and Thrift Is Upheld**

There are many reasons for apathy toward the spirit of pioneering a cause through diligence and thrift. Therefore, creating a sound environment in which the spirit of hard struggle and pioneering a cause through industry and frugality prevails calls for concerted efforts from the whole party and the whole society, leading cadres and civilians alike.

1. Step up ideological and political education. In his speech at the 4th Plenary Session of the 13th CPC Central Committee, Comrade Jiang Zemin made a point of conducting education in national conditions: Chinese history over the last hundred years, the inevitability of socialism, the present condition of the country's economy and culture, the problems of population and resources, the fine tradition of the Chinese nation, and so on, so that our party members, cadres, and people can profoundly understand the extreme importance of

acquiring the style of hard struggle and founding an undertaking through diligence and frugality, which is our fine tradition and also where our strong points lie. In times of difficulty or when circumstances are favorable, we must not forget for a moment the spirit of pioneering a cause through industry and hard struggle. Only when a country, or a nation enjoys material as well as spiritual supremacy, can it be invincible and full of vitality. In development, if we abandon spiritual supremacy, if any, when we have only a low level of material civilization, that will be very dangerous.

To carry out ideological education in hard struggle, we should study again the teachings of revolutionaries of the older generation, and emulate their fine qualities. As early as March 1949, when the 2d Plenary Session of the 7th CPC Central Committee was convened, Comrade Mao Zedong noted, "The Chinese revolution is great, but the road after the revolution will be longer, the work greater and more arduous. This must be made clear now in the party." In the 1950's, he again emphasized, "We must maintain the same vigor, the same revolutionary enthusiasm, and the same death-defying spirit as in the years of revolutionary war." Mao Zedong, Zhou Enlai, and other proletarian revolutionaries of the older generation waged an arduous struggle and led a simple life throughout their life. They kept up the style of plain living and hard struggle whether in difficult war years or after our party had come into power, adequately displaying the sterling qualities of proletarian revolutionaries. In building our country into a modern socialist country, it is still necessary for us to develop the party's fine tradition and emulate and carry forward the fine qualities of revolutionaries of the older generation.

2. Reform irrational regulations. Some of our existing regulations are out of tune with our country's present economic development level and are prone to result in extravagance and waste. For example, too many expenses are covered by the government; the items provided under the supply system are of too high a grade; the expenditure for most institutions constitutes too considerable a financial burden on the government; and so on. The regulations must be revised. The scope of supply should be reduced and standards lowered. It is necessary to cut the number of supplies paid for by the government and to correct the practice by which the government is indiscriminately responsible for financing all things, big and small. Those undertakings that can be run by local people should be run by them; those that should assume sole responsibility for profits and losses should not be financed by the government. Some regulations should be passed into legislation.

3. Tighten and improve management. Mismanagement is widely present in our enterprises, institutions, organs, and schools, and extravagance and waste are more often than not caused by mismanagement. It is necessary to tighten and improve control over the economy and various undertakings to hold extravagance and waste in check. Improving control is not only aimed at money and materials, but also aimed at man, which is more

fundamental by nature. The most important factor lies in man's devotion and sense of responsibility. This is also the kernel of modern managerial skill. Whether the leadership pays enough attention to improving the management of its own enterprise or unit and is good at relying on the workers to achieve this purpose, is an important index of the devotion, sense of responsibility, and capacity to manage an undertaking on the part of the leading cadres. Some leading cadres are indifferent to the extravagance and waste found in their enterprises or units, paying no or insufficient attention to these "minor matters," using the pretext that they only pay attention to major issues. This is not the style by which a real entrepreneur or man of great enterprise is supposed to distinguish himself.

4. Leading cadres should set an example of hard struggle and pioneering a cause through industry and thrift. The key to whether the spirit of hard struggle and of founding an undertaking through diligence and frugality can be carried forward lies in whether leaders at all levels can earnestly practice what they preach and set an example. If leaders at all levels can put strict demands on themselves, truly carry forward the pioneering spirit of hard struggle, count every cent and make every cent count, be the first to bear hardships and the last to enjoy comforts, be honest in performing their official duties, and seek no personal gains, that will be the best education they can conduct among the masses. To achieve this, the most important thing to do is to stick to the principle of serving the people heart and soul. It is necessary to check party members and cadres against this principle in assessing their performance. To maintain the integrity of party and government organs calls not only for keeping ourselves free from corruption, but also being upright and honest in performing our official duties. This is where our fundamental purpose lies in advocating the pioneering spirit of hard struggle. We firmly believe that as long as vast numbers of party members and cadres share the comforts and hardships of the masses, the people will side with the party and help overcome difficulties, the party's rallying force will be greatly enhanced, we will definitely overcome all difficulties arising in the course of advance, and will win one victory after another in the great cause of building China into a modern socialist country, implementing reforms, and opening up to the outside world.

#### Mass Media Guilty of 'Erroneous Guidance'

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12 Oct 89 pp 1, 3

[Article by Yan Yitao (0917 0001 3447): "On Lessons Learned From Erroneous Guidance of Public Opinion"]

[Text] The erroneous guidance given through mass media to public opinion during the political turmoil at the turn of spring and summer this year is worthy of deep rethinking by those working on the propaganda front responsible for guiding public opinion.



In the development of the student unrest-turmoil-rebellion, some mass media played the role of making the stormy sea stormier and adding fuel to the flames. Even as central authorities put down the counterrevolutionary rebellion, some mass media caused a confusion in ideas for some of the masses because some mass media, in one way or another, resorted to publicizing ideas opposite to the central authorities' correct policy of quelling the rebellion. Although some mass media sided firmly with the party and the people and contributed to checking the turmoil under extremely difficult conditions, the erroneous guidance given to public opinion during this turmoil has brought about very serious consequences if we view the matter as a whole.

Grim facts proved that failure in economic work leads to tragic results and so do problems in propaganda work. Facing reality, soberly summing up the characteristics and the cause of the erroneous guidance of public opinion during the 2-month period, and drawing experience and lessons therefrom is the only way to assist ourselves in upholding the correct orientation of our journalistic work, promoting its reform, and making it a real success. In this sense, summing up the profound lessons learned from the 2-month erroneous guidance of public opinion is an urgent task before us.

What are the principal lessons from the 2-month erroneous guidance of public opinion?

#### **I. The Power of Leadership Over Propaganda Work and Public Opinion Must Be Held in the Hands of Marxists**

**The root cause of the erroneous guidance of public opinion came from Comrade Zhao Ziyang; it was due to the erroneous guidance he gave to journalistic work on three occasions:**

**The first one was the "Asian Development Bank" speech and the dissemination of it as an exemplary speech.** As the turmoil was calming down, Comrade Zhao Ziyang, as general secretary of the party, made an Asian Development Bank speech on 4 May, entirely opposed to the decision reached by the Standing Committee of the Political Bureau, Comrade Deng Xiaoping's speech, and the 26 April editorial. It negated the central authorities' conclusion that a tiny minority had been creating the turmoil. Moreover, the Asian Development Bank speech was made not just for the foreigners. On the afternoon of the same day, Bao Tong asked the Central People's Broadcasting Station and the television station to broadcast the speech immediately. He also instructed RENMIN RIBAO to treat the speech in an unusual manner by publishing it in a prominent place on the paper's front page the next day. At the same time, he spent the whole night arranging "reaction" reports to laud this speech. As for the large volume of negative opinions, he disallowed their publication, not only in newspapers, but even as internal reference materials.

The Asian Development Bank speech caused many mass media to make a wrong choice.

**The second was the 6 May instruction on reporting the student unrest.** The turmoil in Beijing escalated daily and the situation further worsened after dissemination of the Asian Development Bank speech. Under these circumstances, on 6 May Comrade Zhao Ziyang told Comrades Hu Qili and Rui Xingwen, then in charge of propaganda and ideological work at the central level, that "there is not much risk to decontrol [fang kai 2397 7030] somewhat" the reports on the student unrest, "to report the demonstrations, and to increase the openness of the press to some extent." He even said, "In the face of the people's will in our country and the progressive international trend, we can only guide them according to the circumstances." This instruction was passed on to principal mass media in the capital on the same day. After that, several arrangements were made, with the result that mass media in the capital as well as other localities vied to "act freely" to publish reports to affirm the demonstrations, sit-ins, and hunger strikes and to go all-out to play them up. This, in turn, resulted in an erroneous guidance of public opinion on an even wider scale.

**The third was the accusation and blame given to the correct decision made by the Shanghai municipal party committee to rectify SHIJIE JINGJI DAOBAO.** The significance of the correct action taken by the Shanghai municipal party committee to deal with the problem stemmed from the fact that effective measures were adopted to check the erroneous guidance of public opinion when disturbances occurred at the beginning of the "big turmoil" [qing ping zhi mo 7230 5493 0037 2608]. This prevented the occurrence of an even bigger disturbance. However, Comrade Zhao Ziyang not only refrained from supporting the Shanghai municipal party committee, but actually blamed it for "making a mess" of the matter and "placing itself in a passive position." Such blame put on the Shanghai municipal party committee with regard to the handling of the SHIJIE JINGJI DAOBAO problem not only became one of the excuses used by some journalists in Beijing and Shanghai to start their marches on the streets, but also added to the tendency of a few among the mass media to depart from party leadership, thus making it all the more difficult to correct and control the mistakes in guiding public opinion.

It should also be pointed out that not all of Comrade Zhao Ziyang's erroneous guidance on propaganda and public opinion came after 4 May. After Comrade Yaobang passed away on 15 April, and before Zhao Ziyang went abroad on 23 April, mourning activities had developed into political demonstrations. During that time, big-character and small-character posters, slogans, and rumors and slanderous words prevailed, Xinhua Gate was stormed, and Tiananmen Square was occupied by students. Despite this grim situation, Comrade Zhao Ziyang took a conniving attitude. Under such circumstances, press circles should have taken a clear stand to correctly guide public opinion, but most remained silent.

A few in the mass media even lopsidedly played up the "patriotic enthusiasm" of university students, causing the "square democracy" and "street politics" to gain recognition and encouragement from the very beginning. Meanwhile, central leading comrades in charge of propaganda and ideological work tolerated and connived at this. Failure to fulfill the function of properly guiding public opinion at the initial stage of the turmoil was a manifestation of the fact that the macrosituation was out of control.

The erroneous guidance of propaganda by the "three arrows shot simultaneously" by Comrade Zhao Ziyang after 4 May and Comrade Hu Qili's 13 May remark that "now is the time for our journalistic work to be reformed" caused chaos in press circles. Some media that had upheld the stand of bourgeois liberalization were prepared to "go all out to do something." An example is that those working for SHIJIE JINGJI DAOBAO and similar people gathered to study the situation and the strategy to be adopted. They thought that the situation was "very favorable" and "the time for a big change had arrived." They wanted to expand the influence on the whole society, feeling that they were safe in doing so because they had strong backing. Some mass media which had been serious in observing party discipline regarding propaganda became perplexed or vacillating. Some newspapers and periodicals that had given correct guidance to public opinion according to the guidelines contained in the 26 April editorial vied to "change their direction" after listening to Comrade Zhao Ziyang's speech. Some mass media correctly persevering in guiding public opinion were therefore under unthinkable pressure.

Facts have shown that the power of leadership over propaganda work and public opinion must be in the hands of Marxists and those comrades who firmly carry out the party's line, principles, and policies. If this major power is taken over by others, extremely grave political consequences will result. The question of leadership power over propaganda and public opinion not only refers to the power of the central authorities' leadership in exercising macro regulation and control over propaganda and public opinion, but also includes the power of leadership on all fronts concerning public opinion. After soberly summing up experience and lessons from the 2 months of erroneous guidance of public opinion, we must invariably attach importance to the earnest solution of the question of leadership power over propaganda and public opinion.

## **II. The Journalism Theory Must Adhere to the Principle of Party Spirit**

The erroneous guidance of public opinion during the 2-month period had a widespread and quick influence on press circles. This is linked inextricably to the fact that over the past few years the trend of bourgeois liberalist thought has confused the theory of journalism.

Ideological confusion, to a great extent, comes from theoretical confusion. In recent years, some "journalistic theorists" and "scholars" have spread a series of bourgeois journalistic views to weaken or even negate the party's theory on journalism and policy toward the press. The manifestation of bourgeois liberalization in the theory of journalism is basically repudiating the principle of party spirit in the socialist journalism undertaking. They openly call for "eliminating political concepts such as party spirit and organ from journalism" so as to "make journalism a real science." They assert that journalism should not be entangled with politics, that the system of party newspapers (including the system of the party exercising leadership over the press) will lead to "journalism guided by party spirit," and that to emphasize party spirit in journalism is tantamount to "taking the branch for the root" and has more negative points than merits. Focusing efforts on repudiating the principle of party spirit in journalism, they pit the people's nature against party spirit and oppose the nature of journalism as the party's mouthpiece. Under the pretext of the "plural theory" of principal mass media, they advocate a so-called "system of newspapers and journals run by the people" in an attempt to get rid of party leadership over journalism. They misinterpret the "pluralization" of functions of the press, and "weaken" its major functions of publicizing and implementing the party's line, principles, and policies. Their so-called "objective and fair" theory is an attempt to wipe out party spirit in journalism. During the recent turmoil, such theories came out of bookshelves and lecterns, appeared in certain newspapers and on the streets, and developed into more "practical" demands. For example, demonstrations staged by the press circles in the capital and other places included a slogan calling for "instituting a genuine editor in chief responsibility system;" that is, a "responsibility system of an editor in chief without a mother-in-law at the top." They also demanded abolition of the exercise of leadership by higher-level party committees over the press units. Another slogan, which called for "relieving the editor in chief of self-restrictions," is actually aimed at negating party spirit and a sense of discipline among journalists. Moreover, the "concept of people being the subject of newspapers," advocated vigorously by some people, is aimed at changing the character of newspapers and making them the mouthpiece of "political opposition factions."

In both safeguarding the fundamental character of socialist journalism and eliminating the corrosive influence of bourgeois journalistic theory, we must regard the adherence to the principle of party spirit in journalism as the most important task for the theoretical front of journalism. Party spirit is a concentrated, conscientious, open expression of class nature, and proletarian party spirit is a crystalized reflection of the people's fundamental, long-range, overall interests. The principle of party spirit in socialist journalism includes nothing but the Marxist outlook on the world and Marxist methodology as the guiding ideology for journalism. Journalism has the basic character of being the mouthpiece of the

party, the government, and the people. In relationships between the party, the government, and the people, the party is the representative, in a concentrated form, of the interests of the people, as well as the core of leadership of the government. The primary task of journalism should be to publicize and implement the party's line, principles, and policies. Under the system of the party exercising leadership over journalism, the party is the core of leadership over all journalistic undertakings. Party newspapers should be responsible to party committees, and party organizations of all journalistic undertakings should be responsible to the party. Different categories of newspapers may be geared to readers of different social strata, but they must carry out their work under party leadership. All Communist Party members engaged in journalism must strictly observe the party's propaganda discipline and must, under no circumstances, publish reports and statements contrary to the party's line, decisions, and instructions. The party's ideological line of seeking truth from facts, style of maintaining close contact with the masses, practice of criticism and self-criticism, and so forth must be implemented in journalism.

Some people worry that upholding party spirit in journalism is contrary to the laws governing journalism. In reality, party spirit in journalism is objectively required by journalism work itself. From the viewpoint of propagating news, news is a type of social information; from the angle of sociology, news is a type of social phenomenon; in the sense of philosophy, news is an important part of the superstructure. As part of social ideology, news must serve the economic base of a society, which determines its explicit political inclination. At the same time, the dissemination of news relies on those who spread the material. A variety of political backgrounds is bound to be behind these material carriers. Thus, the news carried by them is bound to be inclined toward specific political groups. In a society where classes still exist, the latter two inclinations will inevitably manifest themselves as class nature, political nature, and party spirit. This is a law governing journalism and it is independent of man's will. Those who negate the principle of party spirit worship the Western theory of journalism like an idol. Even so, "The Four Theories for Reporting," which has been called a "journalism classic" in the United States, directly points out that the task of the news media is to "serve a political system" and to "serve an economic system." Journalism textbooks in some U.S. universities list the primary "role of journalism" as "serving a political system." In practice, the political nature of public opinion in the West has always been strong. Let us not talk about the anticommunist media of the McCarthy era and the "party quarrel" of the Watergate incident. Wasn't the political purpose of some Western news media strong during the recent turmoil? The world press is invariably inclined toward a class or party. The only difference is that we openly proclaim the party spirit for our socialist journalism, while the Western press tries to hide or is unwilling to admit its intention.

In upholding party spirit in journalism, there are two viewpoints worthy of attention:

One viewpoint believes that the principle of party spirit is "outdated." It says party spirit in journalism was put forward by Lenin in 1905 after the outbreak of the democratic revolution in Russia. Its original purpose was to remind party journalists to increase their awareness of parties in order to guard against being assimilated by parties in an environment where there were many parties and the struggle was complicated. During the years of revolutionary wars our party stressed party spirit in journalism, thus ensuring its unity of thinking and action. Since seizing political power throughout the country, the party has become the sole ruling party without opposition parties. Party organs have served as the overall press of society. Therefore, "in the period of peaceful construction where there are no opposition parties, to stress party spirit in journalism will do more harm than good." The "theory that the principle of party spirit is outdated" has two purposes. First, it denies "the environment where there are many parties," as pointed out by Lenin. In essence, what Lenin means is an environment where class struggle still exists. This point was made very clear by Lenin: As long as this kind of environment exists, it is necessary to stress party spirit in journalism. Second, it has denied the fact that in China "there are no opposition parties," but this does not mean class struggle no longer exists. So long as class struggle exists to a certain extent, party spirit in journalism is not "outdated." This should be quite clear.

Another viewpoint is that which separates the "people's nature" from party spirit. The basic point of this view is that the party is likely to make mistakes while the people are not, and that when the party makes a mistake, journalists should take the people's stand and reflect their demands so as to avoid making the same mistake as the party. This is an anti-Marxist viewpoint because, first, according to Marxist theory on the relationships among the political party, class, and the masses, party spirit is identical with the people's nature. Only the communist party, which is armed with Marxism and wholeheartedly serves the broadest masses of people, can represent the overall class interests of the proletariat and vital interests of the people. Deviation from party leadership can ultimately damage people's interests. It is precisely in this sense that the principle of party spirit lays down the relationships among the party's journalism cause and the party and people. It also reveals the identical responsibility of journalism toward the party and the people. Pitting party spirit against the people's nature in journalism can lead only to an illusion of the "people's nature." Second, this viewpoint actually deems journalists news judges, and believes that correctness of the party's line, policies, and resolutions is not to be proved by social practice and decided by the party as a collective, but is to "be judged independently" by journalists through "liberal proof of the mind." Therefore, this viewpoint believes that journalists can willfully take out of context, or even oppose, the party's line,

policies, and resolutions, and ultimately get rid of party leadership. As a result, this viewpoint will certainly deviate from choices made by the overwhelming majority of the people.

To straighten out basic rights and wrongs in the theory of journalism is a pressing and very arduous task, first, because there exists in the international and domestic climate an atmosphere transplanted from and spread by Western bourgeois journalistic views. Second, certain errors we committed in journalism in the past have been erroneously summed up by many people. Third, a number of journalistic theories upholding the principle of party spirit in recent years has been denounced as ultra "leftist" and "rigid," thus adversely affecting the journalistic circles. Therefore, in summing up the past and pondering the future, we should give top priority to the study of the Marxist theory of journalism and energetically promote construction in this basic field. We should especially summarize and understand, from the theoretical point of view, the penetrating lesson drawn from the recent erroneous guidance of public opinion. This is also the basic task for improving the quality and ideology of the contingent of journalists.

### III. Press Reform Must Adhere to a Correct Political Orientation

It is noteworthy that the recent erroneous guidance of public opinion is also related to the erroneous way in which press reform was carried out. Some comrades mistakenly regarded the guidance of public opinion which supported the turmoil as a "concentrated practice" and "valuable breakthrough" of the "press reform." Especially following Comrade Hu Qili's explosive remark that "it is imperative to carry out press reform," made on 13 May amidst a conspicuously erroneous trend in the guidance of public opinion, the wrong guidance of public opinion was regarded as the so-called "press reform."

Journalistic reform is a component of the political reform initiated and led by our party. Journalistic reform must be upheld and deepened. Gratifying results and breakthroughs have been made in the past 10 years of journalistic reform. These have been welcomed by the masses. We must value and develop the achievements of journalistic reform. At the same time, we must be aware of the strong political nature of journalistic reform. Should there be a deviation or a mistake, it will have an extensive influence on society and will cause great losses for the cause of the party and the people. Therefore, upholding the correct political orientation for journalistic reform is the key to advancing it. Some basic relations which are bound to be touched by journalistic reform have been manifested in a fairly concentrated form during the recent guidance of public opinion. Therefore, conscientiously summing up both the positive and negative experiences and lessons in journalistic work in the recent turmoil and straightening out some basic relations in journalistic reform are of practical significance to correctly advancing journalistic reform or

avoiding mistakes in guiding public opinion in any social disturbances that may occur.

1. The relationship between freedom of the press and social responsibility: Freedom of the press must be ensured, but freedom of the press has never been absolute, because it is restricted by social responsibility of the press. There are double meanings here: a) As part of freedom of speech and publication, freedom of the press comes within the scope of the Constitution and law, and therefore must abide by legal obligations. Propagating news in violation of the Constitution and the law requires punishment. Punishment includes aspects of reputation as stipulated in the civil law and aspects of personal dignity as stipulated by the criminal law. To propagate news for the purpose of inciting the masses to resist or even undermine the implementation of state laws and decrees must also be punished according to law. b) The social responsibility that freedom of the press must undertake means not only trying not to violate laws, but also includes concrete class interests and political requirements that restrict journalistic activities. In a socialist society, the news media has a higher level of socialist responsibility for safeguarding social stability and progress. Under the present situation, stability and unity are in the fundamental interests of the Chinese people as well as China's social development. The news media must consciously undertake social responsibility for safeguarding stability and unity. In particular, when there is instability or when turmoil occurs in society, the news media is not permitted to add fuel to the flames, nor should it try to avoid the matter by remaining silent. The correct attitude should be to side with the party, the government, and the people, and to give correct guidance in an explicit way.

2. The relationship between telling the truth and scientifically analyzing the classes of society: During the recent mistakes in guiding public opinion, "telling the truth" became a general slogan. There is nothing wrong with "telling the truth." As news is the reflection of objective things, it must be completely true. Nevertheless, what we mean by "telling the truth" should be the "truth" that is in accord with the essence of objective things or "truth" that has an effect on promoting the sound development of society. Otherwise, "loss of the truth" is very possible. Obviously, truth does not amount to reporting news without making an analysis or making a choice. Still less does it mean using an isolated incident to cover up the general truth or mixing the spurious with the genuine. To correctly grasp the truth of news reporting, we must apply the Marxist viewpoint, method, and stand and thoroughly study and scientifically analyze the truth of the news before making a choice. Only thus can we ensure truth of the news and correctly guide public opinion. There may be some truth in a one-sided report or a blind judgment, but it cannot be called real truth.

The lesson from the way guidance was provided by mass media in the recent disturbance tells us that, to grasp the true attitude of the majority of society and to speak

truthfully on behalf of the people, the mass media must carry out scientific, social class analysis, particularly under the circumstances of major social events, unrest, or turmoil. During the recent turmoil, the "authentic reports" of some of the media turned out to be erroneous. A primary reason was that the news media failed to correctly appraise the will of the great majority of the people, and some units even thought that their support of the turmoil accorded with "the aspiration of the people at home." News in this period contained too many reports of the activities in Tiananmen Square and in the streets, and about the support given to the students, yet very few reports about things at the grassroots level, about the people's complaints over disturbances and turmoil, and about the work and voice of the party and government. As a result, the news media provided the masses with a lopsided view. To speak truthfully for the masses does not mean to follow public opinion and report it in a passive way. What is more important is to truthfully tell the people what the trend of development is and where their fundamental interests lie, and to use the power of the news media to correctly guide the people to consciously struggle for and defend their social interests.

The lesson of the erroneous guidance provided by the news media demonstrates that, in the face of highly complicated social unrest or even turmoil, it will be very difficult for the news media to reflect truthfully the nature of things and thereby to truly achieve "journalist authenticity" if it abandons scientific social class analysis. In the course of development from student unrest to turmoil, a number of journalist units reported, in a one-sided and exaggerated way, the "moving scene" of student demonstrations without exposing the conspiracy and the backstage activities of certain people who were using student unrest to create turmoil. Such reports, of course, cannot be regarded as "truthful." As the turmoil escalated, the nature of the events became increasingly clear, with a very few careerists moving to the front, the dregs of society acting rampantly, and hostile forces abroad poking their noses deeper and deeper into the matter. However, a number of news reports still described the "patriotic movement" as one that was "surging forward with great momentum" and as something "pure and flawless," and attributed Beijing, particularly Tiananmen Square, which was in turmoil, with being "holy and pure," and "orderly." By so doing, they lost "objectivity and fairness." Thus, without scientific social class analysis, appearances will conceal the intrinsic quality and will be taken as the truth. This kind of "objective reporting" will guide public opinion to astray.

3. The relationship between supervision and guidance provided by the mass media: The ruling party and government need different kinds of supervision, including that by the mass media. Supervision is an important function of the mass media, which also serves as a means of propaganda. The exercise of this function is a precondition for public identification with the correct stand taken by the news media and the provision of

effective guidance. Supervision by the mass media must be systematically strengthened. There is absolutely no doubt about this. However, at the same time, we must not forget that the purpose of supervision by the mass media is to improve and promote the work of the party and government and to forge an even closer relationship between the people, the party, and the government. Therefore, supervision by mass media also touches the question of providing correct guidance. Mass media should raise the democratic consciousness and maturity of the members of society and strengthen their sense of legality by truthfully reflecting public opinion and exercising supervision over the party and government. It should give wider publicity to the process in which the party and government, by relying on the strength of the people, struggle against corruption and backwardness, as this publicity will raise the people's morale. It should correctly exercise supervision to safeguard, from the source, the authority of the party and government as representatives of the people. In exercising supervision, the mass media must pay attention to social effects, timing, and methods. In addition, it must exercise this supervisory function in a democratic way and in accordance with the law. It must safeguard and strengthen the authority of the party and government, particularly in the extraordinary period of social unrest and turmoil.

4. The relationship between bringing into play the enthusiasm and creativity of press units in publicizing public opinion and strictly abiding by propaganda discipline: Press units should firmly observe the leadership and guidance of the party and the government and strictly abide by propaganda discipline. Especially under a complicated situation of social instability or upheaval, it is necessary to strengthen the party's direct leadership over journalistic work, clearly outlining requirements for propaganda work—what should be publicized, opposed, and supported—and promptly informing press units of the overall situation and deep-rooted background behind partial superficial phenomena to achieve better coordination. To strengthen the party's leadership and disciplinary restrictions over journalistic undertakings is by no means to demand that press units perform their work according to administrative formulas, in violation of the law of journalism. On the contrary, party leadership should be strengthened through improving the art of leadership to better conform journalistic work with the law of journalism. Press circles should actively study the scientific rules and diverse ways for exercising guidance of public opinion in different social milieus, so that the guidance is identical with the party's line, principles, and policies, the people's aspirations, and mass acceptability, thereby performing the social responsibilities of journalism more actively, ingeniously, and effectively.

#### **IV. It Is Necessary To Wage a Tit-for-Tat Struggle Against the Infiltration of Bourgeois Public Opinion Overseas**

The recent political storm was "dictated by the major international climate and minor Chinese domestic climate." While launching an anti-Chinese propaganda

offensive, some bourgeois public opinion organs overseas carried out large-scale "psychological warfare" directly against the receiving masses inside China, agitating people, concocting demagogic rumors, and spreading reactionary propaganda through the media.

The United States and some Western nations poked their noses into the recent turmoil from its very beginning. Foreign propaganda organs such as the "Voice of America" daily concocted and spread a host of rumors to stir up trouble in Beijing and other places in China. Especially after the central authorities took action to put down the rebellion, the "Voice of America" and other Western media, as well as a number of newspapers and magazines in Taiwan and Hong Kong, unscrupulously churned out slanderous rumors of the "massacre of Tiananmen" in an attempt to mislead the public, stimulate the "indignation" of people who were ignorant of the truth, and fan irrational fanaticism among the masses. They also repeatedly spread rumors about a "split" in the Chinese leadership and "internal strife" in the Army in order to boost the morale of counterrevolutionary ruffians and confuse people's minds. They concocted all kinds of strange rumors aimed at misinforming the people about "political instability." They repeatedly publicized the "sanctions" by some Western nations in order to intimidate and deceive the Chinese people.

There were several channels through which overseas mass media "guided" our domestic listeners: First, broadcasts of the "Voice of America." During the rebellion, the "Voice of America" increased its broadcast hours and transmission power and directly influenced large numbers of domestic listeners. Second, the importation and circulation of Hong Kong and Taiwan newspapers. Before, these newspapers had a very small circulation on the mainland. However, many people (a handful of extreme news units, including DAOBAO) made copies of them and posted them everywhere. In fact, they became big-character posters and leaflets circulating in the streets. Third, meticulously crafted but false "video recordings of the massacre," brought into the country by foreigners, Overseas Chinese, and some foreign-invested enterprises, have been shown to people in a few localities.

For some time, our external propaganda against overseas anti-Chinese propaganda was weak and listless, and our domestic news departments also failed to promptly clarify "imported" rumors. A handful of journalists, either consciously or unconsciously, even took foreign news media as their guide and "learned about the

situation and got information" from them, thus exacerbating erroneous guidance of the mass media. For some time, rumors originated from abroad had a tremendous influence and greatly confused the masses. This serious lesson merits summing up and reflection.

Our country is already an open country. It is impossible to close the country to international intercourse or block off all foreign voices from entering the country. The crux of the matter is that we must distinguish truth from lies and carry out struggles. It is necessary for us to break free from convention and unnecessary misgivings to firmly expose the truth of foreign rumors and the essence of the so-called "objectivity and impartiality" of bourgeois mass media organs, enhance the people's capacity to tell truth from lies, and fundamentally increase their capacity to resist foreign propaganda. First, we should take preemptive measures and gain the initiative. We should mold correct public opinion and propaganda and increase their transparency. It is necessary to let the Chinese people learn first about major events in China. Second, we should carry out tit-for-tat struggles. We should direct our struggle against specific targets and publicly expose and refute rumors created by foreign news media. After the rebellion, many rumors circulated overseas. A Shanghai newspaper first exposed the three big rumors fabricated by "Voice of America" and Hong Kong and Taiwan newspapers (that is, fighting between the 38th Army and 27th Army, the death of Comrade Xiaoping, and the assassination attempt on Li Peng). A newspaper in Beijing listed 31 reports of the "Voice of America" for the readers and refuted them by contrasting them with irrefutable facts. What the papers have done has had a "destructive effect." After reading the articles, the masses said: "'Voice of America' is dishonest" and "How could the Hong Kong and Taiwan newspapers be so irresponsible?" These articles have convincingly exposed the truth of their so-called "objectivity and impartiality." These rumors were already widely known. If you do not publicly expose and wage a tit-for-tat struggle against them, the rumors would spread like fire and the people would think that you have tacitly admitted them. Therefore, we must expose these rumors to the public and expose the true nature of propaganda machines like the "Voice of America" and the goals of their "rumor politics." By doing so, we shall not only clarify specific facts, but also enable the people to understand the deceitful nature of overseas propaganda machines, tarnish their image, destroy their credibility among the masses, arm the people with the ability to distinguish overseas rumors, and fundamentally enhance their capacity to tell truth from lies. Doing so will be of great benefit in our protracted struggle against the overseas bourgeois mass media.

## NORTHEAST REGION

### Changchun Police Eliminate 'Six Evils'

SK2911053089 Changchun Jilin Provincial Service in  
Mandarin 2200 GMT 28 Nov 89

[Text] In its unified action to eliminate the six evils, the (Dongsheng) police station of the (Erdaohezi) public security sub-bureau of Changchun City extensively mobilized the masses to attack special cases, with the key targets to be dealt with pinpointed. Over the past month or so, it discovered 69 criminals engaged in gambling, hooliganism, prostitution, and the production and distribution of obscene video products; and cracked 21 cases.

The police station paid attention to mobilizing the masses to expose and report criminals engaged in the six evil acts. It also tried to find more clues to other crimes in the criminal cases they were investigating. On one occasion, people's policemen of the station received a clue about gambling when they visited the home of a habitual gambler to exhort him. Cadres and policemen of the police station took action immediately, and caught red-handed four gamblers, including Zhang Xinghua, Zhao Shilin and Dong Chengkui, who met to gamble at the house of Li Shujie, a resident of the (Dongzhuanjiu) neighborhood committee and cadre of the foodstuff plant of the Jiaoqu grain bureau of Changchun City. A total of 11,000 yuan in gambling money was confiscated.

When investigating a major case of theft, the police station discovered that Yan Zhenhuan, a jobless man, had colluded with Geng Lichen, worker of the Changchun bicycle plant, to steal more than a ton of brass from the Changchun bicycle plant, and had committed such crimes as visiting prostitutes. After meticulous and thorough effort in the investigations, prostitutes, and other persons who visited prostitutes were caught.

In the area under its jurisdiction, this police station also broke up in one stroke an 18-member gang composed of Wang Lin, a resident of (Hesi) neighborhood committee, and others who produced and distributed obscene video products.

### Revitalized Role for Enterprise Party Organization Encouraged

40050004A

[Editorial Report] The Chinese-language Jilin provincial daily newspaper JILIN RIBAO of 18 October published on page 3 an article by Guo Gan (2654 2413), who voices support for the strengthening of the role of the enterprise party organization vis-a-vis the enterprise manager. The author addresses fears that this move will reduce the enterprise manager's power and stresses that measures are being taken to further reform the enterprise manager responsibility system.

Guo notes that the adoption of the enterprise manager responsibility system has greatly changed the system for hiring and firing midlevel cadres in enterprises. Whereas

in the past such decisions were made by the enterprise party organization, under the enterprise manager responsibility system, they became the prerogative of the enterprise manager. Guo notes that this change has greatly reduced the power of the enterprise party organization and has relegated it to an "auxiliary" role or mere figurehead status. The reduction of the party organization's role has also been uneven from enterprise to enterprise; in some enterprises, the party organization is still consulted, but in others, not at all. Guo observes that it is the personality and whims of the individual manager that determine whether the party organization is consulted when cadres are hired or fired. He points out that this leaves a lot of room for arbitrariness on the manager's part and that in many enterprises, the manager responsibility system has led to a "one-master system" in which the roles of the party organization and the staff and workers have been completely ignored. Guo says that this reflects both a weakness of the enterprise manager responsibility system and a failure of the enterprise manager to fully understand and carry out his responsibility.

Guo says that the decision by the 4th Plenary Session of the 13th CPC Central Committee to reaffirm and revive the role of party organizations in the supervision of cadres in enterprises is designed to remedy these failings and further reform the enterprise leadership system.

The author observes that some people are worried that the reaffirmation of the supervisory role of the party organization in enterprises means a negation of the enterprise manager responsibility system and a reversion to the old system in which the manager was under the direct supervision of the enterprise party committee. Says Guo, this confusion arises because people insist on viewing the party organization's supervision of cadres as antagonistic to the enterprise manager responsibility system.

He says that experience with separation of the party and the enterprise administration has shown that each system has its strengths and weaknesses and that China needs to combine the strengths of both. Guo views the present move to elevate the role of the party organization in the enterprise as just such an attempt to obtain a harmonious, optimum mix. He sees no attempt to water down the enterprise manager responsibility system and even less of an attempt to revert back to the old party-dominated system. Instead, he sees this move as an attempt to ensure that the party organization does play its necessary role in helping the enterprise manager supervise cadres and make objective decisions on personnel matters.

He believes that this move is motivated by the desire to protect the role of the manager and to further reform the manager responsibility system, as evidenced by the following:

1. The reaffirmation of the enterprise party organization's role will serve to curb any tendency by the enterprise manager to be biased or arbitrary in cadre personnel matters or to do anything that will hurt the



interests of the party. It will force the manager to pay more attention to the party's wishes, have more democratic consciousness, and to be clear about the socialist direction of the enterprise.

2. The revitalized, supervisory role of the enterprise party organization will strengthen its core position in the enterprise; ensure that the staff and workers are the masters of the enterprise; and bring the three elements of an enterprise, namely the party, the enterprise administration, and the workers, into a closer relationship.

3. The reinstatement of enterprise party organizations as supervisor of cadres will help solve the problem of an ideological leadership vacuum in enterprises that has arisen because neither the enterprise manager nor the enterprise party organization has fully met the state's expectations of their roles in enterprise ideological and political affairs. The enterprise manager, on the one hand, often too busy tending to administrative and production matters, does not assume his share of the responsibility for ensuring the enterprise's ideological and political health. The enterprise party organization, on the other hand, is forced to take the initiative in ideological leadership and therefore tends to overstep the bounds of its responsibility.

4. The new measure will enable the enterprise party organization to support the enterprise manager in his work, further protect the enterprise manager's position, and "ensure," not "deprive" him of, his authority to hire and fire cadres.

### Dalian City Arrests Poachers

OW2411003889 Beijing XINHUA in English  
0231 GMT 23 Nov 89

[Text] Dalian, November 23 (XINHUA)—A gang of rare abalone poachers has been punished in Dalian City in northeast China.

Su Tianjie, the gang leader, was arrested yesterday and the other 32 poachers were fined from 600 yuan to 10,000 yuan.

Beginning in late July this year, Su and his followers on five occasions took abalone from the waters of Changhai County, seriously damaging the stocks in the area.

The county judicial department recovered 15,000 yuan in illicit gains and 40,000 yuan in compensation for damages. All of the poachers' tools were confiscated.

### Heilongjiang Reports Progress in Environmental Protection

OW0112064389 Beijing XINHUA in English  
1509 GMT 30 Nov 89

[Text] Harbin, November 30 (XINHUA)—Northeast China's Heilongjiang Province has made great progress in controlling industrial pollution, in the comprehensive improvement of urban environments, and in environmental protection over the past four years.

Provincial Vice-Governor Tian Fengshan, at the recent fifth provincial environmental protection meeting, said that in the past four years Heilongjiang Province has invested 150 million yuan (about 40.5 million U.S. dollars) in controlling industrial pollution. By 1988, the level of hazardous substances such as mercury and phenol in industrial waste water had been significantly reduced, the disposal of liquid industrial wastes had increased by 11 percent, and the discharge of smoke had declined by 14 percent.

Nine of the province's large-scale enterprises have been honored as national "garden plants" for their contributions to environmental protection.

Rapid progress has also been made in urban environmental protection.

By 1988, about 119 smoke control areas, covering an area of 300 square kilometers, had been set up in the province. Five thousand four hundred boilers were renovated and 56 noise control and noise-free areas were established.

The increase in pollution has been basically controlled in the past four years, though the population increased by 1.09 million, and industrial coal use increased by six million tons.

The Heilongjiang Provincial Government has paid attention to environmental protection.

Forty nature reserves, covering 3.1 percent of Heilongjiang's total area, have been established, and 33 kinds of kinds of rare animals have received better protection.

Vice-Governor Tian pointed out that the achievements have resulted from supervision and scientific research on environmental protection.

He said Heilongjiang now has 77 environmental monitoring centers with 1,138 staff members, half of the environmental protection workers in the province.

They monitor water, air, noise, soil, grain, and radioactivity.



### Interview With Szeto Wah on Residents' Prevailing Attitude

40050697A Hong Kong PAI HSING [THE PEOPLE] in Chinese No 198, 16 Aug 89 pp 32-34

[“A Special Interview With Szeto Wah (0674 1778 5478) on the Mood of the People of Hong Kong by Japanese Reporter Hideo Tobari of the YOMIURI SHIMBUN, on 18 July 1989 in Hong Kong”]

[Text] Tobari: The main purpose of my visit to Hong Kong this time is to find out if the attitude of the Hong Kong people toward the Chinese Government has changed since the 4 June Tiananmen incident, and if it has, how is the attitude different today? Mr Szeto Wah, you are probably familiar with the subject, I would very much like to get your opinion.

Szeto Wah: In 1997, China will resume the exercise of sovereignty over Hong Kong. At that time, Hong Kong will become a part of China. Even before the 4 June crackdown, some people already had little confidence in the Chinese Government, because the CPC rarely keeps its words. Before, they already had doubts about the Chinese Government's so-called “one country, two systems” policy and its promise of letting Hong Kong maintain its capitalist system for the next 50 years. Everyone knows that only if China becomes more democratic and makes some progress will there be guarantee of human rights and freedom for Hong Kong. When the student movement erupted in Beijing, Hong Kong citizens gave it their wholehearted support—mainly out of self-interest. They were hopeful that if the Chinese Government gave in to the students' demands, there would be political reform and China would become even more open. If successful, it would mean greater democracy in Hong Kong after 1997. This was the main reason for the unprecedented procession by 1.5 million of Hong Kong's citizens.

Tobari: I remember you said something like, “China without freedom is Hong Kong without a future.”

Szeto Wah: Not only I said that; posters everywhere were saying the same thing.

Tobari: From this statement, one can ascertain the state of mind of the people of Hong Kong.

Szeto Wah: Right. I still remember the slogan, “What happened to Beijing today will happen to Hong Kong some day.” It is an adaptation of an antithetical couplet at the entrance to a cemetery in Hong Kong, which says, “My body is returned to the earth. What happened to me today will happen to you some day.”

Tobari: In Japan, I followed closely the news of Hong Kong. I understand that since the 4 June incident, there has been an unprecedented wave of emigration from Hong Kong. Some people are demanding that the British government grant to 3.25 million Hong Kong citizens the right to settle in the United Kingdom. Others urge

that the Joint Declaration be revised. I am not sure that I understand what is happening. Perhaps you can clarify it for me in detail.

Szeto Wah: The people of Hong Kong have very mixed emotions about the 4 June incident. Honestly, nobody could have imagined the events. Who would have thought that tanks and machine guns would be used to crack down on the students? Moreover, throughout the events, the Chinese Government continued to tell lies, saying that only 23 students were killed and that reporters from around the world used scientific techniques to fabricate the whole incident.

Tobari: That is a wanton lie.

Szeto Wah: Yes, and that also has a big impact on the people of Hong Kong. They realize that the Chinese Government has no appetite for democracy. Furthermore, the Chinese Government's handling of the people who demanded democracy was cruel beyond compare and, henceforth, the people will have even less confidence in that government. They react to the situation in several ways: First, some people want to leave Hong Kong. I believe that most people want to leave, but not all are eligible. This mood is evident in the people's clamor for the British Government to grant them the right to settle in the United Kingdom, and when the Singapore Government approved immigration of Hong Kong's midlevel technical personnel, all the application forms were gone in just 2 days.

Others react differently. After it single-handedly created the 4 June incident, the Chinese Government now finds itself even more isolated from the international community and even more dependent on Hong Kong economically, so it has adopted a policy of mollification and appeasement toward the people of Hong Kong. Recently, Jiang Zemin spoke on the theory of “well water not mixing with river water”—total nonintervention—and said that the people of Hong Kong had been misled earlier and the Chinese Government is willing to let bygones be bygones, but they must not misbehave again. The Chinese Government's tactics have scared many people. The “Hong Kong Citizens Alliance for the Patriotic Democratic Movement” is also under a lot of pressure, because when the CPC branded the student movement a counterrevolutionary rebellion, anyone who supported the movement was supporting the counterrevolution and ultimately became a counterrevolutionary element, and some people are afraid. They have a different attitude: They want to make as much money as possible and improve Hong Kong's economy as much as possible in the remaining 8 years, and they hope that others too will stay away from China's affairs as much as possible. This is the feeling of some people.

A third reaction is serious concern for Hong Kong's democratic future. Some people feel that Hong Kong's democratic future is tied to that of the mainland. They feel that the present regime cannot last, because a government that goes to such extremes to crack down on

people must fall, and so these people are paying closer attention to the affairs of China and the democratic movement there. The three different attitudes described above have developed only since the 4 June incident. Of course, most people fall into the first group.

Tobari: In view of the present situation, what are the controversies over the Basic Law about? I understand that some people want to rewrite the Basic Law and others want to add new provisions.

Szeto Wah: I believe that everybody knows that if the Chinese Government's attitude toward democracy does not change, and if it continues to do without a legal system, any kind of "Basic Law" is meaningless. We are of this opinion not just today but have arrived at this conclusion even before "4 June." Of course, some people feel that even if the Chinese Government fails to turn over a new leaf, we are better off with the Basic Law than without it, because if the Chinese Government should interfere in Hong Kong affairs, the Basic Law will be its first hurdle, even though the Basic Law is not insurmountable.

Tobari: What you are saying is that you are better off with the Basic Law than without it.

Szeto Wah: This is not a matter of with or without. We must have the Basic Law! And a good law is better than a bad law.

Which of the above two viewpoints is more important? Some people suggest that although it is important to have a good Basic Law, it is even more important that China embraces democracy, that it submits to the rule of law. Others feel that the mainland does not matter. As long as we in Hong Kong work on the Basic Law, if the Chinese decide to abide by it, fine; if not, there is nothing we can do anyway. This is "well water not mixing with river water"—we will mind our own business, and let them mind theirs. But some people have an even more positive approach. They feel that there are 8 more years, at the end of which things in China may very well have improved. If so, and if we have a good Basic Law, Hong Kong's democratic system will be ensured. Conversely, if the mainland is no better, the Basic Law is still our first line of defense. I feel that this kind of thinking is more positive, and it is what I personally subscribe to. But, can we have a good Basic Law? This will depend primarily on China. Although the Chinese Government has declared that the Hong Kong people's opinions must be sought in drafting the Basic Law, it can say anything, but ultimately, the power to make the final decision is in its hands. For example, some people asked recently that the enactment of the Basic Law be put off for 1 year. China refused, and that is final. The Basic Law will be put before the National People's Congress for ratification next March as scheduled. On this matter, the Hong Kong people's suggestion was ignored.

Furthermore, there are certain matters in the Basic Law which many people ignored in the past but are of concern now. In the past, people were more worried about the

political system, but now that Beijing has proclaimed martial law, they realize that if Beijing should ever invoke martial law in Hong Kong, it would be very serious, and so some people have suggested that a clause pertaining to martial law be drafted into the Basic Law, making it subject to Hong Kong's legal procedure rather than the discretion of the chief executive. We say that martial law can be declared by the chief executive, but for no more than 3 days; after the third day, it would require sanction by the legislative organ. Furthermore, does Beijing have the right to proclaim martial law in Hong Kong? This point must be clarified. Another matter is the right to interpret the Basic Law. As things stand, the National People's Congress has the right of interpretation. This was heatedly contested, but China stood firm and refused to give in, and today it has become an even more important issue. Let me give you an example. Take the crimes of subversion and treason. I do not know how Hong Kong will define and legislate these crimes. Today, I support the student movement in Beijing and, in the eyes of the CPC, I am a counterrevolutionary element. Is that considered subversive and treasonous? Today, you talk about "one country, two systems" and nonintervention, but in fact, China is meddling in many of Hong Kong's affairs. For example, when I express my opinion in Hong Kong, am I interfering? The last time Chen Xitong [7115 1585 0681] spoke, he criticized many Hong Kong people by name, and he attacked many magazines by name. Things Chen Xitong criticized are in fact permissible under Hong Kong laws. For example, Hong Kong laws guarantee freedom of speech, and so it is not against the law to express an opinion. But by 1997, will it be considered interfering in Chinese affairs? Or take Hong Kong's delegates to the National People's Congress. They go to the mainland each year to attend meetings. Are they permitted to criticize the government at the NPC meetings? People paid little attention to these issues before. After the "4 June" incident, everyone wants to see the Basic Law rewritten or revised.

Tobari: What specific tasks do you have in mind now?

Szeto Wah: Presently, we have several major tasks. First, we hope that the Basic Law will embody a fairly democratic political system. We hope to speed up Hong Kong's democratization process before 1997, that is, we hope that Hong Kong will have a fairly democratic government by 1997.

Tobari: What specifically will you do? Will you try to incorporate a martial law clause in the Basic Law and so on?

Szeto Wah: Earlier, Mr Li Chu-ming [2621 2691 6900] and I submitted some of our own opinions on the Basic Law to the authorities. Someone has just suggested revising the clause pertaining to the Chinese garrison in Hong Kong, but I do not believe it can be revised, because it is already stated in the joint declaration that China will install a garrison in Hong Kong. There is very little difference between having the garrison in Shenzhen

or in Hong Kong. If they want to cross over, we cannot stop them. So, I have no opinion on this matter.

Coming back to the question of what, specifically, we will do. First, we hope that the Basic Law will provide us with a democratic system and that this system will still be valid after 1997; otherwise, under China's growing influence after 1997, it will be difficult to develop a democratic system then. To this end, we have put forward specific requests pertaining to the legislative organ elections. So far, the Hong Kong Legislative Council is basically in agreement with our viewpoint. We are calling it the "19[9]0 Initiative." With respect to the chief executive, we want the first election to be a general election, but right now there is no consensus in Hong Kong. Tentatively, it is agreed that there can be a general election in the year 2003.

Tobari: I understand that the Hong Kong Legislative Council and the Executive Council have agreed on this point and they are prepared to reiterate this stand at the last Legislative Council meeting before summer vacation.

Szeto Wah: That is correct. In fact, even before the "4 June" crackdown, when the Beijing student movement first began, we had reached the mutual understanding that by 1995, 50 percent of the legislative seats will be directly elected to 4-year terms; by 1999, 66.6 percent, or two-thirds, of the legislative seats will be directly elected, and by the year 2003, 100 percent of the seats will be directly elected. As for the chief executive, some people want even the first election to be a general election, but others suggest waiting until the second or even the third election before making it a general election, and there is no consensus yet. The only agreement is that a general election should be held no later than the year 2003, and if the first term lasts only 2 years and the second term lasts 4 years, 6 years after 1997, we can have a general election. This is the general consensus. But I must point out that this is Hong Kong's opinion. Will China accept? Many people are worried. After the crackdown on the student movement in Beijing, some people are afraid; they are afraid to even talk about the subject. But it is a very important issue.

Another task is the drafting of the human rights bill. This is because although Great Britain is a party to the Universal Declaration on Human Rights, not everything Britain has agreed to is appropriate for Hong Kong. Before 1997, we hope to amplify the parts in the Universal Declaration on Human Rights that are relevant to Hong Kong and also formulate our own legally effective human rights law—in other words, no laws may transgress the human rights law. The governor has announced that he will take up this subject in October.

Tobari: At the moment, what kind of people are behind the drafting of the human rights law in Hong Kong?

Szeto Wah: Right now, we have a "Hong Kong Citizens for Hong Kong" movement. We have advanced three conditions: One, strive for the right to settle in the United Kingdom. Two, formulate a human rights law.

Three, establish a democratic system. Not all people who take part in the "Hong Kong Citizens for Hong Kong" movement are members of the democratic faction; some are against the first condition, but everyone supports the second and third conditions.

Tobari: Finally, I would like to ask you, after witnessing the crackdown on the students in Beijing, in your heart, how has your attitude toward the Chinese Government changed?

Szeto Wah: Nothing much has changed. I have only come to know the Chinese Government even better. For the last 40 years, I have been tracking the changes in the CPC, but now I see it for what it really is. In the past, I already knew that it was not a democratic political party and that power was highly centralized, but today, I see things even more clearly. It is a party capable of using its power to massacre and crack down on students, and so I have come to know the real nature of the CPC even better, more deeply. I realize profoundly that all Chinese, whether they are in the mainland or abroad, oppose the action it took. The CPC has lost all popular support.

Tobari: Recently, more and more Hong Kong people are considering emigration. Do you have something to say to those people?

Szeto Wah: I do not encourage nor discourage them. This is not something one can object to, and even if you do, there is not much you can do. I spoke on this subject before the Legislative Council, too. I said that if you want to be a hero, it is your choice, but you cannot ask everybody to be like you. We must respect other people's choices. Everyone has the right to rid himself of fear. It is because the person has no confidence that he seeks to emigrate. Another point is that for those who still cling to an ideal, of course it would be better to stay and continue to work for Hong Kong. I have announced that I myself will not leave. After the "4 June" crackdown, I said that even if Li Peng is still the premier in 1997, I will stay.

Tobari: You said that in public?

Szeto Wah: Yes. But that is one man's decision, I cannot make other people do the same. It is a personal choice. Everyone has the right to choose where he or she wants to live. This is freedom.

Tobari: But if a lot of people choose to leave, wouldn't it jeopardize Hong Kong's future, especially its economy?

Szeto Wah: True, the economy will face a serious crisis. If all the management personnel and the professionals leave, who will take care of Hong Kong? How will Hong Kong survive?

Tobari: Will you be talking to those people who are prepared to emigrate and persuade them to stay?

Szeto Wah: This is beyond the scope of our ability. That is why we support the efforts to win the right to settle in the United Kingdom. Given that right, these people definitely will not leave immediately. They need not give up their jobs right away. They can look around and wait a few more years. In a way, this will help Hong Kong,

too. Without that immigration right, those people will leave right away. We cannot be too harsh on them.

Tobari: But at the moment, the Hong Kong people are desperately trying to get passports from any foreign country. That is a last resort?

Szeto Wah: Yes. You certainly cannot tell them to "trust China!"

Tobari: That would be difficult.

Szeto Wah: Yes. We can only besiege some people, urge them to have a sense of mission and to surmount difficulties. But we cannot ask this of everybody.

Tobari: True. Thank you for accepting this interview.

### **'Centrist' Spokesman Urges Concentration on Long-Term Issues**

40050695A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese  
No 203, 16 Aug 89 pp 26-31

[Interview with Cheng Jienan (4453 0094 0589), director of the Hong Kong Federation of Teachers, by YOMIURI SHIMBUN Hong Kong Reporter Tobari Hideo, date and place not given: "Do Not Provoke China Into Making a Bad Decision"]

#### **[Text] Where Is Hong Kong Headed?**

After the events in Beijing, highly complex changes have occurred in Hong Kong's political, economic, and social situations. The flood of emigrants, the confidence crisis, and the Basic Law are all serious matters confronting the Hong Kong people. As for the Chinese Government, it is downright paranoid about the possibility of Hong Kong becoming an "anticommunist base." Jiang Zemin [3068 3419 3046] has openly demanded that "I mind my own business, you mind yours." In an article in RENMIN RIBAO on 21 July 1989, Ai Zhong [5337 0022] unofficially attacked Li Zhuming [2621 2691 6900] and Szeto Wah [0674 1778] by name, declaring that "one nation, two systems" must not be destroyed. Once these people come into power, Hong Kong will never have peace. Under these circumstances, where is Hong Kong headed? What are China's plans for Hong Kong? Can democratization be speeded up? Under what conditions would Deng Xiaoping say "no"? Naturally, all countries as well as the Chinese in Hong Kong are deeply interested in these issues. So I interviewed Mr Cheng Jienan recently. Mr Cheng is director of the Hong Kong Federation of Teachers, a spokesman of the "centrist" group on the Basic Law Drafting Committee, and one of the founders of "Hong Kong People To Build Hong Kong."

The interview follows:

#### **Confidence Crisis Is Real**

Tobari: I heard that the general attitude of Hong Kong people toward the Chinese Government and the future

of Hong Kong has shifted significantly since the 4 June Tiananmen incident. In what way? I would very much like to hear your views.

Cheng: The shift is essentially one of confidence. Before the 4 June affair, there was already a problem of confidence in Hong Kong. After all, the mainland follows the socialist system and Hong Kong practices capitalism. Moreover, for some older people, the Cultural Revolution and a string of movements in China in the past are all sources of concern. On the other hand, everyone banked his hopes on "one nation, two systems." Now, because of the events in Beijing, particularly some of the details, the people of Hong Kong are extremely worried. For instance, power holders like Yang Shangkun first said that the student movement was not a disturbance but an act of patriotism and that the troops were not aimed at them. Later, however, the government suppressed the movement. Although this is but one specific example, the people of Hong Kong feel that it poses a question of confidence. Consequently, many people, including some of my friends in education, now say that there is no bottom line in dealing with China. Since there is no bottom line, you cannot trust it. This is a major problem today.

#### **One Nation, Two Systems; Mutual Noninterference; Limits of Tolerance**

Also at stake is the Basic Law, which we are still deliberating. The question is whether China would live up to its promise after 1997. Will it continue to adhere to "one nation, two systems"? While they may promise "one nation, two systems," in reality it is difficult to separate the two. In many ways the two are related, as we learned in the Tiananmen incident. So how are we to practice the "two systems"? Their economic ties are very intimate. Ideologically, there is also some connection. How, then, would the "two systems" work? Jiang Zemin said recently, "You mind your own business, I mind mine." He means that you do your own thing in Hong Kong, do not interfere in my thing on the mainland. But he did not say whether the mainland would interfere in the affairs of Hong Kong. Of course, the fact that he was mum on whether the mainland would interfere in Hong Kong does not necessarily mean that it will definitely do so. But the thrust of what he said is this: "Don't you interfere in the mainland." In reality, there is no way Hong Kong can interfere in political reform on the mainland. The key is how to define interference. As I see it, what they really mean is that you better not challenge my regime. In my opinion, the so-called "two systems" and noninterference are, in reality, a matter of determining the limits of tolerance. There can be no absolute separation between the two systems. As long as our actions fall within their limits of tolerance, then we are not interfering in their affairs. But if we go beyond the limits, they will think we are interfering.

Tobari: It is hard to define such limits of tolerance. The most important thing is who is doing the defining.

Cheng: True, it is tough.

Tobari: I kept a close watch on the movements of the Hong Kong people while I was in Japan recently. I discovered that since 4 June the confidence of many people has been badly shaken. Hence, the outflow of emigrants and the demand that the British Government grant the right of residency. What is the real situation?

Cheng: Several issues are involved here. One is the discussion of the Basic Law. Earlier, people were not interested. We ourselves on the committee also proposed that we leave it alone for the time being. When things like these happened in the sovereign nation in "one nation, two systems," it is meaningless to talk about "two systems" at this point.

#### **Basic Law; Flood of Emigrants; Economic Development**

Tobari: Be that as it may, we would be better off with a Basic Law than without one.

Cheng: Of course. Therefore, as time goes by, we must still talk about the Basic Law for the sake of the future of Hong Kong people. A second issue is the flood of emigrants, which is related to the quest for the right of residency. Actually there was an outflow of emigrants even before, but that has now swelled into a flood. Those who left used to come from a certain stratum and did not include people from the lower classes. But today some people are demanding that Britain grant the right of residency to 3.25 million Hong Kong people. Some members of the democratic groups are even talking about the right of residency for all 6 million people here. This way, every Hong Kong citizen becomes involved in the emigration question. Some people say the question of emigration has been exaggerated. Besides, countries like Singapore have relaxed their immigration restrictions, enabling a number of skilled workers to join the flood. Thus, because it does nothing to stabilize Hong Kong, I have reservations about fighting for residency rights. The third issue is the economy. Hong Kong's economy to a large extent is intimately tied to that of China. Events in China have made Hong Kong investors take a wait-and-see attitude and many businesses are rethinking their plans to invest in China. This is roughly the situation in Hong Kong today.

Tobari: These issues and concerns existed in Hong Kong even before. It is just that they have now gotten worse.

Cheng: That's correct.

Tobari: Let us return to the Basic Law. I understand that certain people in Hong Kong propose that new provisions be written into it to prevent Chinese intervention. For example, they say that there should be specific regulations on the imposition of martial law. What is your view on inserting new terms into the Basic Law?

Cheng: There are indeed such proposals in Hong Kong. At the beginning, in hopes of influencing the policy of the Chinese Government, we suggested that we not

discuss the Basic Law; we were on the offensive. Now we want to talk about it, and soon. Owing to changed circumstances, we are now on the defensive, not the offensive. We want to keep Hong Kong's position. That is why we have proposed that we discuss the Basic Law as soon as possible.

Some issues are naturally of great concern to the people of Hong Kong. They are also new issues. One example is martial law.

Tobari: The current draft simply does not mention martial law at all.

#### **The Question of Stationing Troops in Hong Kong**

Cheng: It does mention the declaration of an emergency. Two other issues have always been there. One concerns the stationing of troops; the other the right to interpret the Basic Law. They can be found in Chapters 2 and 9, respectively.

The question of stationing troops is rather complicated. It is stated in the "Joint Sino-British Declaration," so canceling it now would involve amending the declaration. If this term can be changed, it would mean that other sections can be changed as well, which I do not support. You negotiated with a rational Chinese Government in 1984 and accepted the terms reached. Now, after what has happened, you want to go back and change the terms. I don't think the outcome would be any better. As for stationing troops, honestly it is not a question of principle. There is no difference between stationing troops in Hong Kong's outlying areas and stationing troops in Shenzhen. If they really want to come over, they could do so all the same. The Chinese Government wants to station troops to enforce sovereignty, not to suppress anybody. Even if the purpose is the latter, they need not station troops in Hong Kong. They can do so with their troops in Shenzhen. The 300,000 troops sent into Beijing were not stationed in the city.

#### **The Bill of Rights—A Complicated Issue**

Then there is the question of human rights, mentioned in Chapter 3, "Fundamental Rights and Duties of the Residents." I hear that, later this year, the Hong Kong Government will promulgate a "bill of rights." The draft Basic Law includes a provision to the effect that international human rights treaties already in effect in Hong Kong would remain effective. The trouble is that Hong Kong is a party only to those provisions in the international human rights treaty that Britain, the metropolitan state, has signed. So far, Britain has not acceded to the entire human rights convention, selectively accepting only a few dozen provisions. For example, Britain is not a signatory to the provision on equal pay for equal work between men and women. China too has acceded to some, but not all, of the terms in the international human rights treaty. There were reports last year that the

Chinese Government was about to sign the treaty, but it is possible that it will do so selectively. If that were the case, the provisions to which Britain and China accede may overlap, but then again they may not. Herein lies the problem. Which country will Hong Kong follow in the future? You may argue that provisions accepted by Britain should continue to be effective. But what would happen when these provisions are not those accepted by China? So some people now propose that human rights provisions that Hong Kong has already signed be written into Hong Kong law and make China accept it. I don't know China's attitude toward this. Actually, apart from Chapter 3, other provisions in the Basic Law already include the substance of the international human rights treaty. Take personal freedom, for instance. That already exists in Hong Kong. So, by formulating a bill of rights, we would consolidate Hong Kong's legal position on international supervision over human rights.

Tobari: We may promulgate a bill of rights, but it is probably difficult to say whether it would continue to be valid after 1997.

Cheng: That will depend on whether it is included in the Basic Law.

Tobari: That would be better.

Cheng: Actually there is no inconsistency between the two. Even if the Basic Law is silent on it, it would be effective after 1997 because there is a provision in the Basic Law which says laws already in effect in Hong Kong would continue to be effective, with the exception of those that are colonial. We can say that the real intent of those people who demand that human rights be written explicitly into the Basic Law is to test China's attitude.

Tobari: As I see it, what most worries the Hong Kong people at the moment is this: When the time comes, suppose the Chinese Government simply ignores or does not enforce the Basic Law. Then the best written Basic Law would be useless.

Cheng: True. The law is only a piece of paper. You put your signature on it because you trust the other side. It is like two people getting married. The marriage certificate is only a piece of paper. You may wear my ring, but if I want a divorce, I can still walk out. The point is that issues like agreements and treaties all rest on confidence.

Tobari: Everyone is talking about confidence these days. If you have no confidence in the other party, there is no basis on which to draw up a Basic Law.

Cheng: True. On 4 June, I, too, thought this government had gone crazy and lost its head. When Deng Xiaoping reappeared on 9 June, however, I changed my mind. I think you may not agree with his logic and reasoning, but he has not gone mad. He is not irrational, but has his own set of logic and reasoning.

### **"Open Our Eyes to His Rationality and Calculations and Act Accordingly"**

Tobari: The problem is that their thinking is different from ours.

Cheng: True. Their thinking is unacceptable to us. That is why I do not agree with those who say that since this government is irrational, let us not say anything. That will neither work nor do us any good. Now should be the time to see that it is rational and make some observations and judgments. Based on his laws, you can project what is the worst he would do to Hong Kong and consider how we can maintain our "space," maintain "one nation, two systems."

### **When Conflicts Occur, We Can Test Whether Legal Provisions Can Hold Their Ground**

Tobari: Such consideration is more rational. Earlier, the Hong Kong Government indicated likewise but precisely because of the armed crackdown in Beijing, both the Basic Law and the joint declaration have assumed additional significance.

Cheng: That's correct. Some people in Hong Kong propose revising the "Sino-British Joint Declaration." I am dead set against that. You have accepted what you negotiated with the Chinese Government at a time when it was supposedly rational. No point in taking the initiative to ask it to change it now. The value of an agreement, treaty, or contract is that both sides honor it in a particular period of time whatever happens in either country. Now is the time to test whether the joint declaration and "one nation, two systems" are still valid. It is not worthwhile to overturn them. When there are no conflicts or when conflicts are not serious, agreements and treaties are not too important. The time to test whether an agreement stands is when conflicts occur.

Tobari: If Hong Kong has the right to demand that the "Joint Declaration" be revised, probably so does China. If that were the case, there would be no end of trouble.

Cheng: True. The Chinese Communists may say, "Fine, if you want to amend it, go ahead." As a result, everything would be changed. Do not give them an excuse to amend it.

Tobari: What would happen if the Basic Law is amended randomly?

### **How Many Political Factions in Hong Kong**

Cheng: Indeed. What if they do not amend it in accordance with your demands?

Tobari: What you said makes sense. Another issue worth considering is this: I understand that political forces in Hong Kong can be divided into two groups, the democratic group and the other... What do you call it? Where do you stand?

Cheng: It is hard to make such a distinction. As far as discussion on the Basic Law is concerned, there are three

schools of thought. One represents the industrial and commercial community. It has its own ideas, generally emphasizing stability, although there are different opinions even within this group. The second group is the "democratic" group. I belong to the "centrists," which bring together a number of dispersed plans. Our principle is that we take into consideration the interests of all strata in society and work to achieve a consensus.

#### **Divisions After the 4 June Incident**

Circumstances have changed somewhat after the 4 June incident. The industrial and commercial community seems to have been divided. Some people express no interest in the Basic Law and have decided not to take an active part in it. By staying away from politics, these people may also take a wait-and-see attitude in economic matters. They may not want to make new investments in China. Why throw money into politics? This attitude also manifests itself in their failure to react promptly to opposite opinions.

Tobari: This is the inevitable outcome of taking a wait-and-see attitude. It does not mean that their original attitude has changed.

Cheng: You can put it that way. That is why you do not hear two diametrically opposed viewpoints in society today. But some people in industry and commerce still take the short-term view. There are still 7 or 8 years between now and 1997 and meanwhile Hong Kong continues to be ruled by Britain. In my opinion, these people still take the same position as the British Government. After all, we are still dependent on it for the next 7 or 8 years.

#### **Britain Takes the Initiative To Force China To Make Bigger Concessions**

The current British position is this. After 4 June, the people of Hong Kong have become much more democracy-minded. They feel that we British should now seize the initiative. That way the Chinese Government would certainly make more concessions and be more open. The general trend now is that, in the interim period after the signing of the "Joint Declaration," the British factor is receding slowly while the Chinese factor is strengthening. This fact gives the British little room to maneuver. But the 4 June events make the British feel that they could now go on the offensive. Therefore, 2 weeks ago the Foreign Affairs Committee unilaterally put forward an accelerated timetable on political democratization.

Tobari: How does this timetable differ from the previous one?

Cheng: Before the 4 June incident, the Hong Kong political system was supposed to develop this way. One-third of the first legislature will be directly elected in 1995 and the third chief executive will be directly elected in 2003. (Certainly there are other plans, some faster, some slower.) At least these are the demands of us

"centrists." In late May, however, members of the Legislative Council reached a consensus. The first legislature of 1995, which will take us to 1997, will be 50-percent directly elected, instead of one-third. Also, the second chief executive will be directly elected instead of the third. Now the Foreign Affairs Committee has proposed that the first legislature be entirely directly elected.

Tobari: This has been put forward unilaterally by the British Government.

Cheng: Correct. They also suggested that the second chief executive be directly elected. In other words, the legislative body will be entirely directly elected in the 2 years before 1997. This will have a great deal of impact. Even the plan put forward by the democratic faction is not so fast paced.

Tobari: The British Government has proposed this timetable because it thinks it is on the offensive. But probably the attitude of the Chinese government is even more important.

#### **Deng Xiaoping and the Chinese Government Will Not Make Major Concessions**

Cheng: Your observation is very sharp. I believe Britain may have miscalculated. My view is that the Chinese Government will not make major concessions because of 4 June. Let me give you an analogy. A chess player lives together with a scholar. They put up with each other. But when one discovers a gun in the pocket of the other person, the other person hits the first person. Would the first person lower or heighten his vigilance? Similarly, there are no signs to suggest that in the wake of the 4 June incident the Chinese Government would make concessions to Britain readily. Let us not miscalculate.

Tobari: If that is the case, the Chinese Government may very well take a new position or present the British with new demands.

Cheng: It does not necessarily have to put forward new demands. After the British unveiled a new timetable, the democratic group responded immediately by amending its own plan, quickening the pace of political reform. In a few days the Legislative Council will meet for the last time before the summer recess. It is highly likely a new consensus will be presented at the meeting. Current proposals call for filling 50 percent of the seats of the first legislature of 1995 with directly elected members and for the second chief executive to be directly elected. The coming Legislative Council meeting may well speed up the original timetable by suggesting that the first legislature of 1995 be 70-percent directly elected. Should that come to pass, what would happen to the election of the legislature in 1991? The government has already made known its position on what would happen in 1991; 10 of the seats on the legislature would be open to popular election. Recently there have been reports that the number would rise to 20, which is less than 50 percent—just one-third. Raising the proportion to 70 percent by 1995 may be too hasty. I believe the proportion of



directly elected seats in 1991 would be further increased because there is such a wide gap between 1991 and 1995 in terms of the number of directly elected seats.

Tobari: My understanding is that quickening the pace of political reform in Hong Kong is not welcome in Beijing. If Hong Kong insists on pushing ahead, I am worried the Chinese Government would get up to some little tricks.

Cheng: The social atmosphere today being what it is, the conservatives dare not utter a word, while the radicals are getting even more radical, because there is no opposition from the British Government. What if Deng Xiaoping says "no" to the consensus reached under these circumstances?

Tobari: Things would be different if Deng Xiaoping says "no."

### Will a New Conflict Emerge?

Cheng: What would happen if Hong Kong is thrown into another upheaval? That is the question we are now facing.

Certainly I do not agree that we should retreat so as not to give the Chinese an occasion to say no. I do not agree that Beijing should intervene excessively in the discussion about political democratization in Hong Kong. But neither do I agree that Britain should intervene in the political system here after 1997. The affairs of Hong Kong should be decided by Hong Kong people. That is what Hong Kong people running Hong Kong means. As a member of the community of Hong Kong, I very much hope that every point of view will be brought into the open. Only when all opinions are aired can we make choices and compromises. This is the way for the Hong Kong person to fulfill his duty as a member of Hong Kong society. If the Chinese authorities do not accept, then let history be the judge in future. Any opinion with the British label on it will be a provocation to Beijing.

Tobari: Quite right. Do not provoke the Chinese Government too much. The people of Hong Kong should not consider temporary issues now, but long-term concerns.

Cheng: The problem now is too complex.

Tobari: Have Hong Kong citizens calmed down emotionally? They were kind of emotional earlier on, which was, of course, unavoidable. Be that as it may, rational analysis and sober thinking are important.

Let me ask one final question. How do you see the Chinese Government now? We all knew that Hong Kong would revert to China after 1997. Inevitably it would have to cooperate with the mainland. If you get too emotional, a major upheaval may occur before 1997, which may affect Hong Kong's economic status, will it not?

Cheng: Right now, I still cannot see how the situation would really unfold in the days ahead. I only hope that things like this would not happen. I hope that the

Chinese side would become more open and give Hong Kong people a greater sense of security. I believe the Chinese would be open, but not to the extent acceptable to us. There are three aspects to it. First, the economic benefits of reform and the open policy. Second, "one nation, two systems" represents a way whereby this generation may solve the unification problem involving Macao, Hong Kong, and Taiwan. Third, the good record of the Chinese Government in honoring international agreements. Hong Kong still has its space and China must still maintain this space. In that case Hong Kong and Britain should be more realistic. This may help improve the situation a little.

Let me amplify one other point. I believe a democratic system depends on something other than elections. Nowadays we are all obsessed with the proportion of directly elected seats, 50 or 70 percent. In fact, citizen organizations, the relationship between the executive and legislature, the supervision of government, and the role and efficiency of the civil service are all also important. A popular person may get elected, but if citizens do not get organized, would they be able to support him effectively when his government faces a social crisis? I always make this analogy. If a government relies on nothing more than an election, it might as well be standing on a heap of sand, each of its supporters like a piece of sand. But if the citizens are organized, for instance, if there is a political party, the government would be resting on several pieces of rocks. The question is that if we want a popular election to take place at a certain point in time, then political parties should be organized at that time.

Tobari: Based on the statements of some high-ranking Chinese officials, it seems they are quite receptive to the idea of Hong Kong forming its own political parties.

### Political Parties Will Soon Appear in Hong Kong

Cheng: This is related to the fact that they look askance at quickening the pace of political reform in Hong Kong. They realize that a democratic system cannot stand on elections alone but must be supported by political parties. They believe that, as long as you do not have well-established political parties, your democratic system cannot be put on a sound footing. In contrast, the democratic group is saying that we cannot continue to wait. We must use elections to stimulate the birth of political parties.

Tobari: You think Hong Kong should have political parties?

Cheng: Yes.

Tobari: Have they begun forming political parties in Hong Kong?

Cheng: I think so. People in the political commentary community are working on it. Some of my professional friends are also thinking along that line. In the long haul, I can't say political parties have now appeared in Hong Kong. In short, we must all pool our strength together.



Tobari: In your opinion, when will Hong Kong's first political party appear?

Cheng: Very soon.

Tobari: Does the Hong Kong Government approve of it?

Cheng: In the past the government did not approve of the formation of political parties. But neither did it oppose it, so there are no specific provisions on it in the books. Frankly, party politics has appeared, but not to the extent of involving formal political parties. Thus, I think the appearance of parties is a given, unless there are no democratic elections. As I see it, the pace of political reform should be speeded up while remaining stable. The gradual approach is still the best because it takes time for conditions to ripen.

Tobari: A Hong Kong friend of mine has told me that if Hong Kong's political system resembles that of Canada after 1997, then the Chinese Government will find it hard to intervene after 1997. However, he recently said that, considering the Chinese Government, it is no use to do anything today. So he is rather pessimistic lately, having completely lost confidence in the future. Are there plenty of people who think like him in Hong Kong?

Cheng: Plenty. If you do not analyze the present Chinese Government with its laws and reasoning in depth, you will think that way. Most citizens have this emotional response, "You can roll your tanks into Hong Kong at any time. What is the point of talking?" It is this state of mind that has caused the flood of emigrants and unrest. But I do not think we must look at it this way. The Chinese Communist Government too has its own laws and logic. In particular, unlike us, it is looking at things from the perspective of power. So we should examine it and make a judgment accordingly. As long as it does not break the promise of "one nation, two systems," we must take that as the starting point and fight for our "space." China may develop in one of several possible ways in future. But I see no sign that it intends to make a "bad" decision regarding Hong Kong. To put it realistically, it may very well be some event in Hong Kong, not on the mainland, that persuades Beijing to make a bad decision.

Tobari: Well said. Your analysis makes a lot of sense. Thank you very much.

### Many Residents Seeking To Emigrate

40050696A Hong Kong CHING PAO [THE MIRROR]  
in Chinese No 145, 10 Aug 89 pp 14-16

[Article written by You Zixian (1429 2737 6343) on 21 July 1989: "Are the Previously 'Lucky Hong Kong Residents' Becoming Today's 'International Orphans'?"]

[Excerpts] [Passage omitted] The people of Hong Kong's enthusiastic support for the democracy movement on Mainland China has cooled down suddenly since the Beijing Massacre on "4 June 1989," and many of them have been forced to a sober consideration of Hong

Kong's future in light of brutal reality. Since they will be subject to rule by the government of the PRC in 8 years, the broken promises and irresponsible attitude shown by the CPC regime since the start of the student movement in May 1989, as well as its continued brutal suppression of dissidents, have bitterly disappointed and terrified the people of Hong Kong. The confidence that the government of the PRC built among them in a decade of reform and opening up to the outside world has completely collapsed almost overnight.

Since there are fewer than 3,000 days until 1997, many of the people of Hong Kong are being forced to look for "a way out." [passage omitted]

Their prospects are bleak. Some Hong Kong residents have organized the "Hong Kong People To Save Hong Kong Movement," which has made the first of its three goals a fight to win for the people of Hong Kong the right to live in England. Moreover, Teng Lienju [6772 5571 1172] and Li P'engfei [2621 7720 7378], the heads of Hong Kong's legislative and executive offices, have become travel-worn and weary drumming up support for this goal in London. Despite their persuasive sincerity and tireless pleading, their words have fallen on deaf ears and most people both in and out of the British Government have remained unmoved. Prime Minister Thatcher has agreed only to adopt a flexible policy in handling the applications of some Hong Kong residents to live in England, and promised that if the people of Hong Kong are persecuted after Hong Kong is returned to China in 1997, Great Britain will take actions, such as calling on other countries to help them. British Foreign Minister Harvey has indicated even more clearly and unmistakably that England could not admit all of the over 3 million people of Hong Kong as residents, but could give the right to live in England only to Hong Kong's high-ranking government functionaries, professionals, business managers, and those engaged in sensitive jobs (about 20,000).

Although the fight to win the people of Hong Kong the right to live in England may be well-intentioned, it is hard to make it sound reasonable since it is being waged only to buy them "insurance." Although it is true that, under normal circumstances, they would not really want to leave Hong Kong for England who could guarantee that, if they had the right, they would not vie to go and live in England if an emergency arose in Hong Kong in 1997 or thereafter? The wife of the governor of Hong Kong can hardly be blamed for saying that she does not understand the mentality of the people of Hong Kong in fighting to win the right to live in England, since they are loudly condemning the British Government's meanness for refusing to let them live in England on one hand, while claiming that they would not go to England on the other. Thus, Britishers cannot help being perplexed.

From the perspective of concern for Hong Kong's future, it is self-contradictory to say that the call for the people of Hong Kong to save Hong Kong is correct, while emphasizing the fight for the right of 3-6 million Hong Kong

people to live in England. How can Hong Kong be "saved" if everyone keeps a passport in his pocket, does not consider Hong Kong his home, and is prepared to "slip away" at any moment? In fact, since most Hong Kong people are certainly not enthusiastic about fighting for the right to live in England and are well aware that it would be impossible, they are simply "going through the motions."

Other people with bolder ideas have suggested buying an island in the northern part of Australia and building a new Hong Kong to take in its 6 million residents. While this suggestion to build a new Hong Kong may sound like a good idea, it is simply a mirage with absolutely no possibility of being realized. It has already been turned down by Australian officials, who say that the existence of any kind of British regime on Australian soil is not only unthinkable, but is also unacceptable to Australia and its provincial governments. Not only do Hong Kong's capitalists and masses of residents probably not want to move to a new Hong Kong and become "wasteland reclaimers," but they would not even have the necessary objective domestic and foreign conditions there to build a new Hong Kong. Moreover, it would be hard for the CPC to tolerate this act to "desert Hong Kong" that would cause so much damage to its interests, and the British are even less likely to risk falling out with China over it. Therefore, this "way out" is actually closed. [passage omitted]

Since the people of Hong Kong have lost hope in the present situation while dreading the future, those who are able are naturally making plans to emigrate. Those who were undergoing emigration formalities have lost no time in speeding things up, those who were undecided have made up their minds quickly and are preparing to leave, while those who, because of economic, family, or personal limitations, were unable to leave are also taking all possible steps to acquire emigration qualifications.

Emigration has become the most popular topic of conversation in Hong Kong. No visit with relatives or friends can be conducted without the following questions: "Are you ready to emigrate?" "Where are you emigrating?" "When are you going?" Even though business is slack in all industries, real estate prices have dropped, tourism is in a slump, and entertainment and consumer businesses are in much worse shape than before, emigration advice companies are mushrooming and emigrant baggage packing and shipping companies are very busy. The wide variety of eye-catching advertisements for emigrants in the newspapers is swaying public feeling. Since people are on tenterhooks and many residents are eager to have passports, the rush to line up at visa offices to apply for British passports and identification certificates can hardly be coped with by visa office staffs. The wait on line to make appointments for identification certificates reportedly will extend to December 1989 and the wait to make appointments for British passports will extend to March 1990 at the general headquarters of the visa office at Chienshachu alone.

This shows the mentality of the people of Hong Kong in wanting to get away. [passage omitted]

The people of Hong Kong are choosing to emigrate first to the United States and Canada, second to Australia and New Zealand, and third to certain European or Southeast Asian countries. These countries are taking advantage of the opportunity to soften their terms on admitting Hong Kong immigrants, some out of humanitarianism and others out of self-interest. For instance, the U.S. Senate passed an immigration reform bill during the first third of July 1989, which will raise the U.S. Hong Kong immigration quota from 5,000 to 10,000 people a year. In light of the recent large increase in the number of inquiries by Hong Kong people about permanent residence, Taiwan—which has always taken a relatively hardline stand against admitting Hong Kong immigrants—also announced recently that it would relax its restrictions and make it easier for Hong Kong immigrants to apply to apply to cross its borders.

Singapore's actions in this area can be said to be unusual. Singapore's Hong Kong attache office announced on 10 July 1989 that it had relaxed its immigration restrictions and ruled that blue- and white-collar workers from Hong Kong who applied to immigrate to Singapore would need only one of the following three qualifications: 1) A Chinese or English high school diploma and 5 years of work experience at a salary of HK\$6,000 [Hong Kong dollars] a month; 2) A standard mark of five on the General Certificate of Education (GCE) test or its equivalent; 3) Approved job credentials or their equivalent. This is much softer than Singapore's former immigration policy of welcoming only investors of \$1 million Singapore. Singapore plans to admit 25,000 qualified people from Hong Kong in the next 5-8 years with this new policy to ease its shortage of specialists and technicians. Immigration will actually be available only to Hong Kong's upper or middle classes, while it will be too costly for most of the children of its blue- and white-collar workers. Thus, only "the poor will be unable to immigrate." The people of Hong Kong are naturally scrambling to take advantage of Singapore's current, unexpected, greatly relaxed immigration policy.

According to press reports, the day after Singapore announced its new immigration rules more than 20,000 Hong Kong residents lined up at booths set up in the Haifu Center at Chinchung to wait for immigration forms. The scene was very chaotic because of the crowds of people and downpouring rain. When the people in charge were forced to stop issuing forms, the crowd made an uproar and the police finally had to send reinforcements to help keep order.

In fact, the people of Hong Kong have certainly not shown much interest in emigrating to Singapore in the past. Although 1,200 Hong Kong professionals have obtained permission to immigrate to Singapore in recent years, only 20 have actually left Hong Kong to work there. That Hong Kong residents are not hesitating to jump at the opportunity to get Singapore immigration forms even though they cost HK\$1,200 apiece, shows that even the proletariat has lost its faith in the CPC.

It can be said that Singapore is attractive because it is one of the four tigers of Asia and has the same culture and race as Hong Kong. But that many Hong Kong residents are still inquiring about immigration to the Philippines, although they think that it is backward and has an unstable political situation, and even though it has raised its immigration investment from \$20,000 to \$75,000, is an even stronger indication of the determination of certain Hong Kong residents to leave Hong Kong. Moreover, the tiny Central American country of Belize, that the people of Hong Kong have almost not even heard of, has also provided a convenient immigration plan for Hong Kong residents, whereby they can get a passport to Belize simply by paying \$20,000 in Hong Kong without having to actually go there and "become isolated immigrants." More than 500 immigration forms were issued and hundreds of phone inquiries a day were received in the 3 days after this plan went into effect. The Kingdom of Tonga, an even lesser-known Pacific island country with a population of 90,000, only 30 of whom are Chinese, and a territory of over 170 undeveloped coral islands, is also beckoning to Hong Kong residents. Since one can become a citizen of Tonga by paying only \$16,500, it is attracting many passport applications from people in both Hong Kong and Mainland China. In summary, Hong Kong residents have almost acquired the mentality of "starving people who cannot be choosy about their food" in their desire to emigrate. [passage omitted]

How could Hong Kong, which always lured people with its reputation as the "Pearl of the Orient," have gradually turned into a "Spider of the Orient," which people hate to the point of fearing only that they will not be able to escape it in time? And how could Hong Kong residents, who were always considered "lucky" and envied, have actually become "international orphans" who are begging everywhere for someone to take them in? Who is actually to blame for this?

Since Hong Kong residents have the right and freedom to emigrate and no one to protect them, they can hardly be blamed for trying to emigrate to protect themselves. Since they were not this panic-stricken by either the Cultural Revolution riots in 1967 or the Sino-British talks on Hong Kong's future in 1983, they could not have reached this plight if not for the "Beijing Massacre on 4 June 1989." What is worrying them is that the CPC has not yet faced up to the situation. When answering reporters' questions on how the PRC Government is planning to keep panic-stricken Hong Kong residents from emigrating and stop the brain and capital drains that are occurring, the PRC Foreign Ministry spokesman has continued to try to ignore the problem by refusing to acknowledge it, saying "mobility among talented personnel is normal in a modern international city like Hong Kong and I think there are many factors involved

in Hong Kong's increased brain and capital drains in recent years." This spokesman presumably thinks that Hong Kong's recent immigration trend is unrelated to the "Beijing Massacre on 4 June 1989." If this is the view of the PRC leaders in Zhongnanhai, I am convinced that it will be a disaster for Hong Kong.

It is true that most Hong Kong residents love and would hate to leave Hong Kong. They either do not want to or cannot leave, and hope to stay and build a more prosperous and magnificent Hong Kong. About a dozen people from all walks of life recently signed a joint declaration on "Hong Kong People To Build Hong Kong," pointing out that "Hong Kong's achievements are the result of painstaking work by each one of us and we really could not bear to abandon them without careful consideration," and that "facts have proved that even though Hong Kong's prosperity and stability are affected by outside factors, they depend even more on the Hong Kong leadership and rank and file being of one mind and taking a positive approach toward building Hong Kong." It calls on Hong Kong people to "keep a calm, careful, and optimistic attitude, work as one, stand firm at their posts, and continue to build Hong Kong" even in the face of the present shocking situation in Mainland China.

This is another positive and healthy voice that is breaking out in the midst of the general mood of fighting for the right to live in England or emigrate, and should be welcomed by all Hong Kong residents (including those who will stay and those who want to go) because it is their common wish that Hong Kong will be able to stand firm in the midst of its difficulties. If it can, those who stay will certainly gain from it, while those who go will also share in the glory. Otherwise, Hong Kong's days are over and no one will benefit.

I earnestly hope that the leaders in Beijing will cherish this remnant of confidence that still exists among Hong Kong people despite the deadly immigration trend, and take realistic steps to restore their confidence. Idle talk alone, such as "We will persist in reform and opening up to the outside world," "Our policy of 'one country, two systems' will not change," and "We'll mind our business if you mind yours," is no longer enough. The Beijing authorities had better rescind as soon as possible the martial law in Beijing that is so damaging to their image, stop tracking down, arresting, and persecuting those who took part in the democracy movement and intellectuals, stop meddling or interfere less in Hong Kong's affairs prior to 1997, and listen conscientiously to the views of Hong Kong residents when drawing up the Basic Law, so as to reach agreement on one that will ensure democratic government in Hong Kong, is in line with Hong Kong's actual conditions and Hong Kong people's wishes, and will truly allow Hong Kong people to rule Hong Kong. If they will do these things, Hong Kong's situation may improve.

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